The Economist

Medical tourism

What to do about Musharraf

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AUGUST 16TH–22ND 2008 www.economist.com

RUSSIA RESURGENT

AND HOW THE WEST SHOULD RESPOND



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Print Edition August 16th 2008

Russia Resurgent
The war in Georgia is a victory for Russia. The West's options are limited, but it needs to pursue them firmly: leader



Middle East & Africa

Europe

Britain

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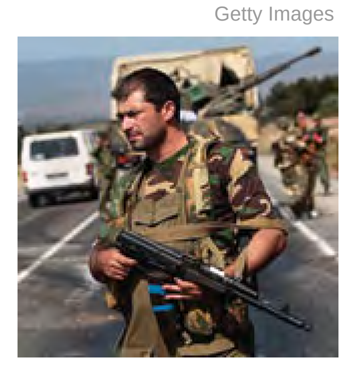
International

Economic and Financial Indicators

Politics this week

Aug 14th 2008
From The Economist print edition

Getty Images



Russia and **Georgia** signed a ceasefire after five days of war. The deal was brokered by the French president, Nicolas Sarkozy. Georgian forces were pulled out of South Ossetia and Abkhazia, leaving the Russians in control of both breakaway Georgian enclaves. Despite the ceasefire, Russian troops and tanks continued to attack targets inside Georgia proper but, after a stark warning from the Americans, they later pulled back. See article

President **George Bush** condemned the Russian invasion and announced that American aircraft and ships would deliver humanitarian aid to Georgia. Meanwhile, European Union foreign ministers agreed to send monitors to supervise the truce. An emergency meeting of NATO was called to review relations with Russia.

At least nine **Turkish** soldiers were killed by a roadside bomb apparently placed by rebels of the Kurdistan Workers' Party (PKK). Fighting between Turkey's army and the rebels has escalated in recent months.

The **euro-area** economy slumped in the second quarter, with negative growth reported by each of the three biggest economies. The news raised fears that Europe might soon tip into recession. See article

Heating up

At least 18 people, including nine soldiers, were killed by a bomb in the northern **Lebanese** city of Tripoli, where a revolt by al-Qaeda-linked militants was squashed by the Lebanese army last year. In a sign of warming relations, Lebanon's new president visited his counterpart in Syria's capital, Damascus. See article

Talks on power-sharing in **Zimbabwe** between President Robert Mugabe and opposition leaders Morgan Tsvangirai and Arthur Mutambara, mediated by South Africa's President Thabo Mbeki, appeared to stall. One of the sticking points was how much power a new prime minister, most likely to be Mr Tsvangirai, would have in a new administration if Mr Mugabe stayed on as president. See article

The African Union suspended **Mauritania** from membership in the wake of last week's coup. But it was unclear whether enough countries, in Africa or elsewhere, would keep up the pressure to persuade General Mohamed Ould Abdelaziz to step down. See article

Mahmoud Darwish, widely regarded as the **Palestinians'** national poet, who expressed their sense of loss and defiance over the past four decades, died in the United States and was given a grand burial in Ramallah, capital of the Israeli-occupied West Bank.

Last stand

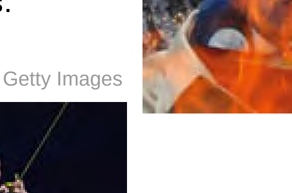
AP

President Pervez Musharraf of **Pakistan** continued to insist he would not resign, despite facing impeachment by parliament. Three provincial assemblies called on him to seek a vote of confidence or quit. Since the army seems unwilling to back him, his days as president look numbered. See article

Clashes with **Islamist militants** in Pakistan's north-west are reported to have killed 300 people.

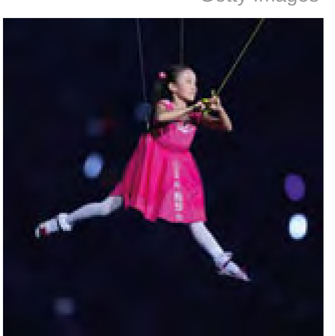
Fighting flared on the Philippine island of **Mindanao** after a peace deal between

the government and the separatist Moro Islamic Liberation Front was blocked by the Supreme Court. Around 160,000 people were displaced, but were returning home by mid-week.



Violence continued in Indian-administered **Kashmir**, in both the Muslim-majority Kashmir valley and the Hindu-dominated region of Jammu. At least 20 people have been killed in the most serious anti-India protests in years.

Getty Images



The **Olympic games** opened with a dazzling spectacle in Beijing's new National Stadium. Officials were embarrassed when it emerged that a nine-year-old singer was miming to another girl's voice. See article

Thaksin Shinawatra, the deposed prime minister of **Thailand**, jumped bail, flying to London with his wife. Mr Thaksin said he would not get a fair trial in Thailand on corruption charges which he says are politically motivated. See article

Japan and North Korea agreed to reopen an inquiry into the fate of Japanese citizens abducted by North Korea in the 1970s and 1980s.

Morales booster

Evo Morales, **Bolivia's** socialist president, convincingly won a recall referendum. He was backed by two-thirds of the 84% of voters who turned out. The vote paves the way for the approval of a new constitution. But voters also gave their backing to four regional governors from eastern Bolivia who are Mr Morales's main opponents, so the country's regional divide may persist. See article

Mexico's government set up a new police anti-kidnap squad after an outcry over the abduction and murder of a businessman's son in June. More than 430 kidnaps were reported in 2007, many carried out by police officers.

Venezuela's leftist government relaxed some of its price controls, raising the price of beef and bread by up to 50% and lifting controls on some other foodstuffs. This may ease shortages but will boost inflation, which reached an annual rate of 34% in July.

Supporters of Álvaro Uribe, **Colombia's** president, delivered to the electoral authority more than 5m signatures calling for a referendum on changing the constitution to allow him to stand for a third consecutive term. Mr Uribe, whose approval rating is above 80% in opinion polls, has not yet said whether he wants a third term.

Everyone's at it

John Edwards, a former Democratic senator from North Carolina and John Kerry's vice-presidential running mate, confessed to an affair with a film-maker, Rielle Hunter. He denied, however, that he was the father of her love-child. His political career was declared over. See article

The **mayor of Detroit**, Kwame Kilpatrick, began a series of court appearances. He was charged in March with perjury, obstruction of justice and misconduct in office for having an affair and covering it up. A group of city pastors urged him to quit. See article

Michael Phelps, an American swimmer, became the **most successful Olympian** ever when he won his 11th career gold medal in Beijing.

A report from the Department of Transportation revealed that in the past nine months **Americans drove** 53.2 billion miles less than they did in the same period a year ago. Urban travel dropped by 1.2% and rural travel by 4%.

Business this week

Aug 14th 2008
From The Economist print edition

After a four-week-long bounce, financial stocks tumbled back to reality. **JPMorgan** indicated that it faced further losses on mortgage-backed securities after a substantial deterioration in trading conditions. Speculation continued to mount that **AIG** may announce a capital increase. Meanwhile, **Goldman Sachs** faced a raft of downgrades as analysts worried about a slowdown at its capital markets divisions.

Fannie Mae successfully sold $3.5 billion of debt to investors. America's biggest mortgage company remains in crisis mode, however. Standard & Poor's, a rating agency, downgraded Fannie's preferred stock and subordinated debt, reflecting the risk that it might be taken into receivership. The company's senior debt, with its near-explicit government guarantee, remains triple-A rated.

UBS, one of the biggest victims of the credit crunch, opened an old can of worms by announcing that it would run its investment bank separately from its wealth-management and asset-management arms. Speculation mounted that the bank may consider a sale of the troubled division, largely formed from acquisitions including O'Connor & Associates, SG Warburg, Dillon Read and PaineWebber. See article

Credit Suisse was fined by Britain's Financial Services Authority for mispriced trades. The regulator said the bank's traders had been treated with "too much deference".

Wheeling and dealing

Despite tricky markets, mergers and acquisitions continued. **Continental**, a German tyre and car-parts maker, said it would carry on talks with **Schaeffler**, a privately held ball-bearing maker. Schaeffler has controversially accumulated control of over one-third of Continental's shares, mainly using derivatives. **Volkswagen**, the two firms' largest customer, supports a tie-up.

Other bid targets put up stiffer resistance. **Lonmin**, a platinum producer, rejected as "opportunistic" a $10 billion offer from **Xstrata**, an acquisitive diversified miner.

UnionBanCal rejected a $3 billion offer from **Mitsubishi UFJ Financial** for the 35% of the Californian bank it does not own. UnionBanCal said it was prepared to talk.

Roche, a Swiss drug company, also received a frosty reception for its $44 billion bid for the 44% of **Genentech** it does not already own. The directors of the American biotech company argued that the offer fails to reflect the firm's portfolio of cancer drugs. Genentech's share price continues to trade well above Roche's original $89 per share offer, indicating investors expect a revised bid.

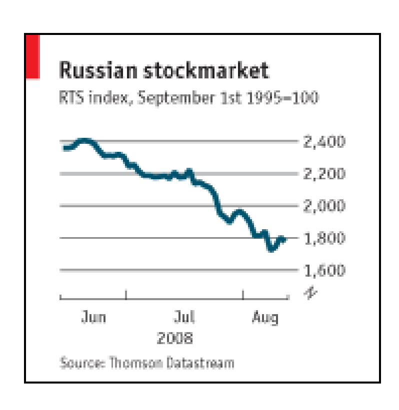
Dan Hesse, the new chief executive of **Sprint Nextel**, America's third-largest mobile-phone company, admitted that it had "miscalculated" by announcing a plan to raise new convertible shares on August 6th. The firm reversed the decision the next day, after failing to get investors' support. Sprint is heavily indebted following the acquisition of Nextel in 2004. It will continue to try to reduce borrowings. Sprint's shares have risen by over a half from their low in March, as investors have placed bets that the company will be sold or broken up.

Moscowed

A fragile ceasefire in South Ossetia helped **Russia's stockmarket** to stabilise after a torrid month in which lower energy prices have been compounded by concerns about political risk. In dollar terms, Moscow is the world's third-worst-performing bourse in the quarter to date, after Karachi and Lima. Turkey's stockmarket is the best performer, up by about a fifth.

The Bank of England struck a gloomy note when its governor, Mervyn King,

gave warning of a "difficult and painful adjustment" for the British economy. The central bank is now predicting that growth will stall in the first quarter of 2009. Perhaps as a result, the bank seemed less concerned about inflation, which it forecast would fall back below the 2% target within two years if interest rates remain unchanged. The pound fell to a 22-month low against the dollar. See article



Standard & Poor's lowered **Argentina**'s long-term sovereign debt rating farther into speculative territory. The one-notch downgrade, to B, reflects concerns about a slowdown and inflation; it contrasts with Brazil, which recently achieved investment-grade status. Argentina's government announced a debt buyback in response.

Wait till they get a load of me

A new Batman film, "The Dark Knight", topped America's box office for the fourth weekend, according to Warner Bros. The film is already the third-largest-grossing of all time, although, adjusted for inflation, the caped crusader's latest venture ranks only 49th.

KAL's cartoon

Aug 14th 2008
From The Economist print edition

Illustration by KAL



The war in Georgia

Russia resurgent

Aug 14th 2008
From The Economist print edition

The war in Georgia is a victory for Russia. The West's options are limited, but it needs to pursue them firmly



Correction to this article

ON THE night of August 7th, Mikheil Saakashvili, Georgia's president, embarked on an ill-judged assault on South Ossetia, one of his country's two breakaway enclaves. Russian tanks, troops and aircraft poured across the border. Just five days later, after pulverising the Georgian armed forces, Russia announced that it was ending its operations.

This brutal and efficient move (see article) was a victory for Vladimir Putin, Russia's president-turned-prime-minister, not just over Georgia but also over the West, which has been trying to prise away countries on Russia's western borders and turn them democratic, market-oriented and friendly. Now that Russia has shown what can happen to those that distance themselves from it, doing so will be harder in future.

Living next to the bear

Russia has made perfunctory attempts to justify the invasion. It claimed that it was defending Russian citizens. This excuse, as Sweden's foreign minister tartly noted, recalled Hitler's justifications of Nazi invasions. Anyway, most of the "Russian citizens" in South Ossetia and Abkhazia had been handed their passports fairly recently, presumably in preparation for this foray.

Similarly, Russian attempts to draw analogies with NATO's bombing of Serbia in 1999 and its encouragement of Kosovo's independence, or with the American-led invasion of Iraq, do not wash. The latest fighting in South Ossetia may have been triggered by the Georgians, but it was largely engineered by the Russians, who have, over the years, fanned the flames of the conflict. As for the Iraqi parallel, not even the Russians pretend that Mr Saakashvili has ever been a threat to his neighbours and to the world.

This was no sudden response to provocation, but a long-planned move. Mr Putin resents the West's influence in former Soviet countries such as Georgia and Ukraine, and he dislikes the puckish Mr Saakashvili intensely. He may not yet have ousted him (indeed, ordinary Georgians have rallied to support their president—so far). But by thumping down Russia's military fist in the Caucasus, he has made clear that Russia will not tolerate excessive signs of independence from its neighbours, including

bids to join the NATO alliance.

This new Russian imperialism is bad news for all its neighbours. Mr Saakashvili is an impetuous nationalist who has lately tarnished his democratic credentials. His venture into South Ossetia was foolish and possibly criminal. But, unlike Mr Putin, he has led his country in a broadly democratic direction, curbed corruption and presided over rapid economic growth that has not relied, as Russia's mostly does, on high oil and gas prices. America's George Bush was right, if rather slow, to declare on August 11th that it was unacceptable in the 21st century for Russia to have invaded a sovereign neighbouring state and to threaten a democratically elected government.

Yet the hard truth, for Georgians and others, is that pleas for military backing from the West in any confrontation with Russia are unlikely to be heeded. The Americans gave Mr Saakashvili token help when they transported Georgian troops home from Iraq (where 2,000 of them made up the third-largest allied contingent). And they have now sent in humanitarian aid in military aircraft and ships. But nobody is willing to risk a wider war with Russia over its claimed near-abroad. Among Russia's immediate neighbours, only the Baltic states, which slipped into NATO when Russia was weak, can claim such protection.

That does not mean the West should do nothing in response to Russia's aggression against Georgia. On the contrary, it still has influence over the Russians, who remain surprisingly sensitive about their international image. That is why Western leaders must make quite clear their outrage over the invasion and continued bombing of Georgia. Few have done that so far; the Italians and Germans in particular have been shamefully silent.

Above all, the West must make plain to Mr Putin that Russia's invasion of Georgia means an end to business as usual, even if it continues to work with him on issues such as Iran. America has already cancelled some military exercises with Russia. America and the Europeans should ensure that Russia is not let into more international clubs, such as the Paris-based OECD or the World Trade Organisation. Now would also be an appropriate time to strengthen the rich-country G7, which excludes Russia, at the expense of the G8, which includes it.

The European Union, which has too often split into camps of appeasers and tough-talkers over Russia, should drop negotiations on a new partnership and co-operation agreement. Visa restrictions should be tightened, and the personal finances abroad of top Russian officials probed more carefully. The EU should work harder at reducing its dependence on Russian energy imports and improving internal energy connections—and EU countries should stop striking bilateral deals with Russia.

Let them in

In the short term, none of this is likely to deter Russia from reasserting itself in the Caucasus if it feels inclined to do so. Together, though, such measures might give Mr Putin pause before trying anything similar elsewhere—for instance in Crimea, a part of Ukraine that is home not only to many thousands of Russians but also to Russia's Black Sea fleet. The clearer the West's displeasure, the better the chances of getting peacekeepers and monitors from other countries into Abkhazia and South Ossetia to replace the Russian troops which have been there as peacekeepers since the early 1990s, but which should leave as they are now clearly occupying forces.

Most importantly, although Mr Saakashvili's foolishness makes admitting Georgia harder, Russia's incursion should not delay plans to let Ukraine and Georgia into NATO. Russia's aggression will make these countries, and others, keener than ever on joining. The worst outcome of this war would be for the West to allow Russia a veto over any sovereign country's membership of either NATO or the EU.

Correction: we wrongly stated that the Baltic states joined NATO in the 1990s. They actually joined in 2004. This error was corrected on August 15th 2008.

Globalisation and health

Importing competition

Aug 14th 2008
From The Economist print edition

The coming boom in medical travel could help both rich and poor

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HEALTH care has long seemed one of the most local of all industries. Yet beneath the bandages, globalisation is thriving. The outsourcing of record keeping and the reading of X-rays is already a multi-billion-dollar business. The recruitment of doctors and nurses from the developing world by rich countries is also common, if controversial. The next growth area for the industry is the flow of patients in the other direction—known as “medical tourism”—which is on the threshold of a dramatic boom.

Tens of millions of middle-class Americans are uninsured or underinsured and soaring health costs are pushing them and cost-conscious employers and insurers to look abroad for savings (see article). At the same time the best hospitals in Asia and Latin America now rival or surpass many hospitals in the rich world for safety and quality. On one estimate, Americans can save 85% by shopping around and the number who will travel for care is due to rocket from under 1m last year to 10m by 2012—by which time it will deprive American hospitals of some $160 billion of annual business.

Brain drain or net gain?

The coming boom has its critics. Some worry that a flood of foreigners into developing countries will divert money and expertise from state health systems that are already overwhelmed—an internal brain drain that will worsen care for ordinary people. Others decry it as a distraction from the need to cut costs and improve quality in rich-world health systems.

But the private sector cannot be blamed for the failings of state-run health bureaucracies in developing countries, which neglected the poor long before medical tourists arrived. And the foreigners’ arrival could improve things in developing countries, for the poor as well as the rich. Although the hospitals that cater to medical tourists will of course employ local staff, they will also create jobs, tempt home émigré doctors and nurses, encourage locals to train as medics, spread know-how and treat local people.

The flight of America’s “medical refugees” is indeed a symptom of a troubled health system back home. Yet medical tourism need not be a distraction from necessary reforms, but could be a catalyst to them. The prospect of losing revenues to India or Thailand is already shocking hospital administrators and insurers into raising standards, increasing price transparency and lowering costs. It may even bring the growing political pressure for reform to a head.

If medical tourism is to live up to this promise, several barriers must first be swept away. In parts of America arcane restrictions still forbid out-of-state doctors from consulting with patients on the internet

or by phone, which inhibits follow-up care for medical tourists. Legal and insurance barriers make it hard for employers to give employees a financial incentive to choose medical tourism over local options—even though insurers are allowed to offer such incentives to prompt patients to pick cheaper doctors inside America.

In developing countries, the system for training doctors and nurses is often monolithic and state-financed. That makes it hard for the private-sector medical business to grow without depleting state coffers. A sensible model is the one employed in the Philippines, which allows nurses to work in the private sector or abroad if they repay their student loans. And part of the financial windfall which sick foreigners could bring to poor countries that welcome them should be spent on medical care for the poorest. If governments make the best of the boom, then medical tourism should improve the health of rich and poor alike.

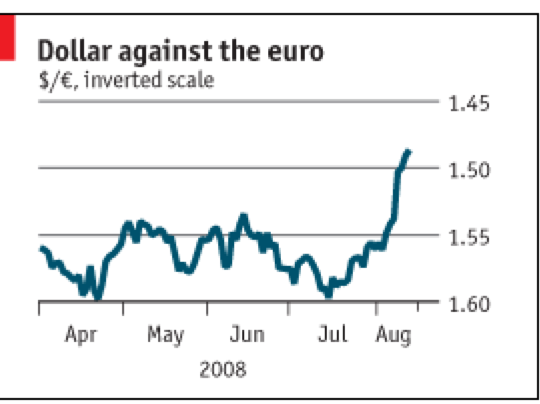
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The world economy

A problem shared

Aug 14th 2008
From The Economist print edition

Economies across the rich world are flirting with recession. Good news for the dollar



FUND managers and bank executives have learnt that investors are often more forgiving if their peers are losing money as well. That lesson applies to economies and their currencies too. The world's financial troubles may have been triggered by America's housing bust, but it is other rich countries that are hurting most. Figures released on August 14th show that the euro-area economy shrank in the second quarter (see article). Japan's GDP also fell in the spring quarter. The Bank of England's governor, Mervyn King, said this week that Britain's economy is likely to stagnate for the foreseeable future (see article).

The mess in America suddenly seems less awful. Indeed, a surge in export sales in June probably means that GDP growth for the most recent quarter will be revised up from 1.9% at an annualised rate, which is already respectable. The foreign-exchange markets have sensed a change in the weather. Over the past week, the dollar has swiftly gained ground against the euro and the pound. The thinking in the foreign exchanges is that it makes less sense to punish the dollar if other economies are doing so badly. The fear of a dollar rout, which has long stalked financial markets and even prompted the Federal Reserve chief, Ben Bernanke, to talk up the currency as recently as June, now seems to have evaporated.

One reason for thinking that fear will not return is the broad foundation for the dollar's rally. Part of the story is the recent sharp fall in the oil price: because America's economy has most to lose and least to gain from expensive oil. America is a big user of oil, compared with fuel-efficient Europe, so more dollars than euros flow into the oil-exporters' coffers when oil becomes dear. The euro area also gets more of its currency back through export sales. It ships more than three times as much in exports to cash-rich oil producers as America does.

You cannot be sure that the oil-price fall will last. But markets may also sense that America is likely to recover more quickly than other struggling rich-world economies. The trigger for the dollar's rise against the euro was a reluctant acknowledgment on August 7th by Jean-Claude Trichet, head of the European Central Bank (ECB), that the bank's fear of a harder landing for the euro area was becoming reality. Few expect the ECB to cut interest rates soon. Inflation is far too high for comfort and is unlikely to drop much until 2009. But markets took Mr Trichet's concession to mean that the next move in euro-zone interest rates is likely to be downward, with the first reduction possible next year.

By then, American interest rates may be heading in the opposite direction. This chance of a narrower interest-rate gap has also helped lift the dollar. Many criticised the Fed for keeping interest rates too low for too long after the dotcom bust earlier this decade. But such was the sluggishness of the euro-area economy back then that the ECB did not feel ready to raise interest rates until December 2005, long after the Fed started tightening. That downturn demonstrated how quickly America's economy can bounce back, and how painfully slowly the euro zone tends to emerge from the doldrums.

The silver dollar lining

If the oil price keeps falling and America's housing bust bottoms out soon—as it may (see article)—how far would a dollar rally go? On some measures, such as purchasing-power parity, the greenback still looks cheap against the euro. American visitors to Europe complain about how expensive everything is; travellers in the other direction are delighted by how far their budget stretches. But the dollar is cheap for a reason. Economists at the Peterson Institute for International Economics in Washington, DC, reckon

that the euro-dollar exchange rate required to keep America's current-account deficit at a sustainable level is around $1.47—not far below today's value.

Yet even if the dollar rally turns out to be modest, the lesson of the past week is that America's economy is not uniquely frail. Creditors, such as Germany and Japan, that played no direct part in the housing and credit booms have lived off the extra demand for their wares. They are now struggling to find other motors for their economies. And as the gloom spreads, one cloud has lifted. The dollar's revival is likely to make Asian central banks and other large holders of reserve assets more comfortable about sticking with the greenback. The risk of a dollar rout, with the incalculable wreckage that would imply for all asset markets, is thankfully greatly reduced.

Bank strategies

No size fits all

Aug 14th 2008
From The Economist print edition

Don't blame banks' business models for the credit crisis. Blame their management

Illustration by David Simonds



FROM "you and us" to "us and them". UBS, a dishevelled Swiss bank, announced on August 12th that it was stepping away from its integrated model and establishing its investment-banking, wealth-management and asset-management divisions as stand-alone entities. UBS's management scoffs at the idea that this will lead to the sale of the investment bank, but a break-up is precisely what many inside and outside the bank think is needed. The problem, they say, is that big banks like UBS and America's Citigroup have got the wrong model.

It is true that risk-loving investment bankers and stability-prizing private bankers make unlikely bedfellows. The recklessness of UBS's investment bankers has made the bank the credit crunch's biggest total loss-maker to date. Clients of its private bank are spooked: the wealth-management arm suffered an overall loss of deposits in the second quarter. Swiss regulators are also unnerved and want a more robust capital regime for the country's big banks.

And there is a good case for greater simplicity in bank models. The management skills needed to excel at investment banking are different from those in retail or corporate lending. In the industry, they say that the universal-banking model is like putting together a lion and a horse.

Yet, tempting as it is to believe that changing business models would solve UBS's problems, or those of the wider industry, the evidence of the credit crisis suggests otherwise. No single model has emerged from the turmoil either wholly vindicated or entirely discredited. Credit Suisse shares a city square in Zurich and a business strategy with UBS, but has come through the past 12 months in much better shape and continues to attract money into its wealth-management division. Citigroup's version of the universal-banking model is one where it walks into every punch going; Britain's HSBC has been more successful in blunting the impact of its American misadventures through decent earnings in emerging markets. Of the Wall Street investment banks, Goldman Sachs has survived with its reputation enhanced. Bear Stearns did not survive at all. Pure retail banks can blow up too: Northern Rock, which was nationalised by the British government after a humiliating run on it, had a simple enough product line.

A familiar story

What separates the winners from the losers is not models, but management. One aim of the reorganisation at UBS is to stop its investment-banking arm from funding itself with inexpensive capital thrown off by the wealth-management arm. That should not have been happening anyway. The model

may have enabled traders to fund themselves too cheaply, but the bank's managers set the internal cost of capital too low. That Credit Suisse's boss, Brady Dougan, has an investment-banking background may help to explain why it has done a better job. And imagine if Jamie Dimon, the fêted boss of JPMorgan Chase, rather than Chuck Prince, a dancing lawyer, had been running Citigroup. The outcome would surely have been quite different.

Regulators, too, should remember that no one bank model offers a clean solution to the problem of systemic risk. Simpler, slimmer institutions may be easier to police, but they are more liable to go under when the environment sours. Even smallish banks can pose systemic dangers: Bear Stearns was not big, but it still warranted a rescue. Bigger, diversified institutions may be more resilient, and they also come in handy when a buyer is needed for an ailing competitor. But they are harder to supervise, impose greater costs if they get into difficulty themselves, and can constrain competition and innovation.

Some businesses will need to change because of the crisis. UBS may well have to get rid of its investment bank to shore up its reputation with its wealthy customers. The frailties of the Wall Street investment banks—in particular, their exposure to wholesale markets for funding—have become shockingly clear. But the structure of an organisation matters less than the quality of the people who lead it. For bank regulators and shareholders, the question is less “what?”, more “who?”.

Pakistan

Beyond Musharraf

Aug 14th 2008
From The Economist print edition

Pakistan's government should forget about punishing the president and get on with governing

EPA



THE story of Pervez Musharraf's rise and fall has been a long and rather sad one. A skilful and decent professional soldier, he took power in 1999 amid chaos caused by corrupt and incompetent politicians, came to like the stuff and clung on to it far too long. A good friend to the West in the fight against al-Qaeda, he became a liability as he stalled on the promised return to democracy and his countrymen turned against him. Now the story seems to be nearing its end (see article).

For the government elected in February, which is seeking to impeach Mr Musharraf, this is both a danger and an opportunity. The danger is that, once Mr Musharraf has gone and it has no common hatred to unite its disparate parts, it descends into feuding and paralysis. The opportunity is to transcend its preoccupation with president and to start tackling the two huge problems Pakistan faces: the spread of Islamist militancy and a fast-sinking economy.

First, though, Mr Musharraf should go. He is already much diminished in power since he sloughed off the "second skin" of his army chief's uniform last year and became a president in mufti. His term finished last year. He claims to be a democrat, and it is clear his people want him out. To bestow a new term on himself he flouted the spirit and possibly the letter of the constitution by getting the outgoing parliament to re-elect him. When the new parliament was elected in February, his supporters were trounced—not just because of sympathy for their opponents after the assassination of Benazir Bhutto, a former prime minister, but also because he is so unpopular.

His chances of hanging on are, anyway, small. He could try to fight impeachment in parliament, by cajoling venal politicians there. He could challenge it in the courts. Worst, he could resort to his presidential powers to declare a state of emergency. That would be, in effect, another coup by a man who took power in one and sustained himself by declaring a state of emergency last November. It is, however, unlikely to happen. Mr Musharraf is no longer army chief, and his successor, though his nominee, has so far shown creditably little inclination to leave the barracks. It is in the interests of both the country and the armed forces that the soldiers should stay there. Previous civilian administrations have been corrupt and inept, but so has the army rule that has routinely supplanted them. For Pakistan to break this vicious circle, it needs an army that renounces coups, come what may.

The politicians also need to avoid repeating past mistakes. The coalition government is led by Bhutto's widower, Asif Zardari, and Nawaz Sharif, the prime minister Mr Musharraf overthrew in 1999. Understandably, they have focused on getting rid of, and punishing, the president. But they should allow him to leave with as much dignity as he can salvage. Resignation would be humiliation enough.

Allegations that he has embezzled huge amounts of American aid need to be investigated. But Messrs Zardari and Sharif need to abjure the backward-looking score-settling and forward-looking nest-lining that have characterised previous Bhutto and Sharif regimes, put aside their mutual loathing and work together to fight extremism and repair the economy.

The Taliban and the economy, stupid

The threat posed by the "Pakistani Taliban", both in the tribal areas that blur into Afghanistan, and in Pakistan itself, is mounting. Fighting this week alone has claimed some 300 lives. The struggle against the extremists has been unpopular in Pakistan. It is seen as America's, Afghanistan's and Mr Musharraf's war. Politicians have therefore tended to play down its importance. But Pakistanis are not, by and large, religious extremists. Defeating Pakistan's version of the Taliban is in the interests not just of the West but also of the country's moderate majority.

The other priority must be the deteriorating economy. Mr Musharraf made much of his governments' alleged economic competence. But despite the billions of dollars of American aid that have poured into the country, the Asian Development Bank reported last year that its poorest people were worse off than they were a decade earlier, before Mr Musharraf took over. Uniquely in Asia, Pakistan had seen a slight rise in the number of people living on less than the equivalent of a dollar a day. In the past year the sharp increase in food and fuel prices has made their lot even harder. Annual inflation is now running at 25%. Economic hardship is feeding extremism. Pakistan's politicians have more important things to do than settle old scores.

On al-Qaeda, Romanian, Paraguay's president, American politicians, Ecuador, Cambodia, sport doping, Russian humour

Aug 14th 2008
From The Economist print edition

Ever present

SIR – Your special report on al-Qaeda stated that “for America, the terrorist threat is still mainly an external one, involving extremists coming from abroad to carry out attacks” (July 19th). One reason for the lack of home-grown attacks is that American authorities have employed an effective (albeit controversial) system of prevention through legislation such as the Patriot Act, or by establishing a Department of Homeland Security. But although there have not been any attacks on American soil since 2001 this does not mean that internal threats are any less numerous than those presented in Europe.

It is often forgotten that the second most deadly terrorist attack in America’s recent history was carried out by a man who was born in New York state, raised a Catholic and was a veteran of the Gulf war. Timothy McVeigh murdered 168 people without remorse in Oklahoma City in April 1995.

Fion Anastassiades
London

SIR – You largely ignored the single most central means by which America could win the war on terror: restore some modicum of its erstwhile moral authority. The continued incarceration of Muslims at Guantánamo and the violent and senseless occupation we subject Iraqis to on a daily basis undermines whatever other virtues we might have. Suffice it to say, it has become more and more difficult for Muslims to not feel that America’s war on terror is in fact a war on Muslims. Until we seriously address this issue, no amount of diplomacy or aid will help us win the hearts and minds of the Muslim world.

John Halliwell
Cairo

SIR – It was of little help to readers to be sent back to revisit the origins of a “Muslim resentment” pathology in Afghanistan. It would have been more relevant, historically and geographically, to refer to the annexation of the Afghan kingdom to the North-West Frontier Province by the British raj, which happened soon after the casual carve-up of the Ottoman Empire had enraged the Muslim world. Hard to imagine that it was once thought the division of the Pushtuns would make the frontier easier to defend. It has been a poor calculation, and a lasting gift to al-Qaeda.

Roger Massie
Kolbsheim, France

SIR – History suggests that movements like al-Qaeda can outlast their opponents. The French in Algeria, like the Americans in Iraq and Afghanistan, won battles only to discover their opponent’s leadership and fighting base continually refreshed.

Arthur Wojtowicz
Boston

Word power

SIR – It is true that Romanian does not have a precise word for “accountability” (“Mr Too Clean?”, August 2nd). The Romanian term *responsabilitate*, like the French *responsabilité* (to which it is related) and similar words in other Romance languages, encompasses both the concept of responsibility and that of accountability. Of course, we shouldn’t read too much into this. Romanian also lacks an exact word for “dating”, but this has never prevented Romanians from doing so. Thus, the lack of a precise term is

probably not the cause of any issues of accountability in Romania.

Radu Costinescu
Washington, DC

Religious order

SIR – Your round-up of the week's news reported that the papal dispensation given to Fernando Lugo in order that he become Paraguay's president was the first time that the Vatican allowed a bishop to resign (Politics this week, August 2nd). Cesare Borgia was made a bishop at the age of 15 and a cardinal at 18 by his father Pope Alexander VI. On August 17th 1498 he resigned both positions and on the same day the French king, Louis XII, made him Duke of Valentinois.

John Jolly
Portland, Oregon

Safe seats

SIR – Responding to my recent letter on clustering in American politics, Adam Yore claimed that Americans have little love for their politicians and "vote not for but against a politician" (Letters, July 19th). Why is it, then, that on average around 90% of incumbents get re-elected to Congress? Perhaps there is enthusiasm for politicians in America after all.

Taggart Davis
Colchester, Essex

Keeping it simple

SIR –"All other things being equal, the simplest solution is the best." Rafael Correa, Ecuador's president, misses the point of Occam's razor with his new 444-article constitution. With it, he avoids fixing problems such as a politicised judicial system, weak economic structure and rampant corruption ("The good life", August 2nd). With its mere seven articles, America's constitution is a thing of beauty.

Jorge Barriga
Stockholm

Cambodia's election

SIR – Although the Cambodian People's Party and Hun Sen, its leader and Cambodia's prime minister, may be guilty of corruption and human-rights violations ("Stability, sort of", August 2nd), the runner-up Sam Rainsy Party is no paragon. Its xenophobic anti-Vietnamese platform would hardly enhance regional stability and might add fuel to an old fire.

Luke Wohlers
Boston

Roping dope

SIR – I read with enjoyment your leader on doping in sport, gene doping and Olympic equity ("Fairly safe", August 2nd). Let me build on your notion of greater transparency. Would not the simplest, fairest measure to manage doping be to hold an All-Chemical Olympics?

Athletes who wished to enhance their performance with various substances could compete secure in the knowledge that their enhancements were fully transparent to all and that they faced similarly enhanced competition. Records (hopefully denoted with an asterisk) would doubtless continue to fall. And, since there is a degree of medical risk in concealing the use of certain types of performance enhancers, the

safety of the athletes would be less compromised, as a medical presence beside track, court or rink could deal with any untoward outcomes.

For those athletes “on the natch”, participation in the traditional Olympics would become a more open, competitive affair, subject not to chemicals but only to the whims of commerce.

Jeffrey Lemkin
Seattle

Russian humour

SIR – Your review of a book on Soviet cars (“Spluttering to a halt”, July 12th) reminded me of the old Soviet joke about the man who finally puts together enough for a deposit for a car.

Having handed over his hard-earned roubles to the factory boss, he is told to return in exactly 8.3 years on June 4th when his new car will be ready. Okay, he says, but should I come in the morning or the afternoon?

Puzzled, the car boss asks why and the man replies, “It’s just that there’s a chance the plumber said he could come around on that date”.

Rod MacKenna
Prévessin, France

Russia and Georgia

A scripted war

Aug 14th 2008 | GORI, MOSCOW AND TBILISI
From The Economist print edition

Both sides are to blame for the Russian-Georgian war, but it ran according to a Russian plan

AP



GORI was Stalin's birthplace. Did his statue in Stalin Square smile approvingly on Vladimir Putin as Russian tanks rolled past and the few residents left wandered around the bombed ghost town, without purpose? In 1921 the Bolsheviks occupied Georgia. Now Russia, for the first time since the collapse of the Soviet Union, had invaded a sovereign country.

Georgia was once the jewel of its empire, and Russia has never psychologically accepted it as a sovereign state. Nostalgia for the Soviet empire has long been the leitmotif of Russia's ideology. This month it re-enacted its fantasy with aircraft and ground troops. It occupied Abkhazia and South Ossetia, the two separatist regions of Georgia, blockaded the vital port of Poti, sank Georgian vessels, destroyed some infrastructure, blocked the main east-west highway and bombed and partially occupied towns in Georgia, including Gori.

Western diplomats and politicians rushed to Moscow and to Georgia's capital, Tbilisi, trying to broker a ceasefire. The lobby of Tbilisi's main hotel resembled a United Nations conference. On August 12th Russia, having pulverised the small Georgian army, decided it was time to stop. A few hours before France's president, Nicolas Sarkozy, was due in Moscow, Russia's president, Dmitry Medvedev, announced an end to Russia's "peace enforcement operation". The aggressor, he said "is punished and its military forces are unravelled". He then signed the ceasefire plan that Mr Sarkozy brought to Moscow.

That same day, hundreds of thousands of Georgians flooded Rustaveli Avenue, Tbilisi's main street. They read poetry and sang songs. Georgia, a small, dignified, theatrical nation, had held together. In the evening they lit candles and waved flags: Georgian, Ukrainian, Armenian. On the same spot almost 20 years ago Soviet troops had brutally disbanded a demonstration which had declared Georgia's independence.

Yet it was not until America's George Bush delivered a stark warning to Russia late on August 13th that Russia began to pull back all its forces. Mr Bush sent his secretary of state, Condoleezza Rice, to Georgia and told his defence secretary, Robert Gates, to organise a humanitarian-aid operation. The first American aircraft landed at Tbilisi airport soon afterwards.

So what was all this about? Clearly, more than the two separatist regions of Abkhazia and South Ossetia, as Russia claimed. It was also about more than simply punishing Georgia for its aspirations to join NATO,

or even trying to displace Mikheil Saakashvili, Georgia's hot-headed president, who has irritated Russia ever since he came to power in the "rose revolution" in 2003. It is about Russia, resurgent and nationalistic, pushing its way back into the Caucasus and chasing others out, and reversing the losses Russia feels it has suffered since the end of the cold war.

The fact that Georgia is backed by the West made it a particularly appealing target. In fighting Georgia, Russia fought a proxy war with the West—especially with America (which had upgraded the Georgian army). All this was a payback for the humiliation that Russia suffered in the 1990s, and its answer to NATO's bombing of Belgrade in 1999 and to America's invasion of Iraq. "If you can do it, so can we," was the logic.



Russia was also drawing a thick red line on the map of Europe which the West and NATO should not cross. And, as in any war, there were powerful subjective reasons in play. Mr Putin's personal hatred of Mr Saakashvili, and his ability to deploy the entire Russian army to fulfil his vendetta, made war all but inevitable.

With the smoke of battle still in the air, it is impossible to say who actually started it. But, given the scale and promptness of Russia's response, the script must have been written in Moscow.

Who is to blame?

The rattling of sabres has been heard in both capitals for months, if not years. Russia imposed sanctions on Georgia and rounded up Georgians in Moscow. In revenge for the recognition of Kosovo's independence earlier this year, Mr Putin established legal ties with the governments of South Ossetia and Abkhazia. When Mr Saakashvili called Mr Putin to complain and point out that the West supported Georgian integrity, Mr Putin, who favours earthy language, is said to have told him to stick Western statements up his backside.

In the late spring, Russia and Georgia came close to a clash over Abkhazia but diplomats pulled the two sides apart. A war in Georgia became a favourite subject in Moscow's rumour mill. There were bomb explosions in Abkhazia and the nearby Russian town of Sochi, the venue of the 2014 Winter Olympics.

Suddenly, the action switched to South Ossetia, a much smaller rebellious region divided from Russia by the Caucasus mountains. In early July Russia staged a massive military exercise on the border with South Ossetia. At the same time Russian jets flew over the region "to establish the situation" and "cool down Georgia's hot-heads", according to the Russians.

The change of scene should not, in retrospect, be surprising. Unlike Abkhazia, which is separated from the rest of Georgia by a buffer zone, South Ossetia is a tiny patchwork of villages—Georgian and South Ossetian—which was much easier to drag into a war. It is headed by a thuggish former Soviet official, Eduard Kokoity, and run by the Russian security services. It lives off smuggling and Russian money. As Yulia Latynina, a Russian journalist, puts it, "South Ossetia is a joint venture between KGB generals and an Ossetian gangster, who jointly utilise the money disbursed by Moscow for fighting with Georgia."

In early August Georgian and South Ossetian separatists exchanged fire and explosive attacks. South

Ossetia blew up a truck carrying Georgian policemen and attacked Georgian villages; Georgia fired back at the capital of South Ossetia, Tskhinvali. On August 7th Georgian and South Ossetian officials were due to have direct talks facilitated by a Russian diplomat. But according to Temur Iakobashvili, a Georgian minister, the Russian diplomat never turned up.

What happened next is less clear. Russia claims that Mr Saakashvili treacherously broke a unilateral ceasefire he had just announced, ordering a massive offensive on Tskhinvali, ethnically cleansing South Ossetian villages and killing as many as 2,000 people. According to the Georgians, the ceasefire was broken from the South Ossetian side. However, what triggered the Georgian response, says Mr Saakashvili, was the movement of Russian troops through the Roki tunnel that connects South Ossetia to Russia. Matthew Bryza, an official at the State Department, says he was woken at 2am on August 7th to be told that the Georgians were lifting the ceasefire. “I tried to persuade them not to do it,” he says.

That same night, Georgia started to shell and invade Tskhinvali. Then the Russian army moved in—the same troops that had taken part in the military exercise a month earlier. The picture Russia presented to the world seemed clear: Georgia was a reckless and dangerous aggressor and Russia had an obligation, as a peacekeeper in the region, to protect the victims.

Russia’s response was predictable. One thing which almost all observers agree on is that Mr Saakashvili made a catastrophic mistake by walking into the Russian trap. As Carl Bildt, Sweden’s foreign minister, puts it: “When you have a choice between doing nothing and doing a stupid thing, it is better to do nothing.” But Mr Saakashvili, a compulsive risk-taker, did the second. Even now he is defiant: if the clock were turned back, he says his response would be the same. “Any Georgian government that would have done differently would have fallen immediately,” he says.

Mr Saakashvili bears responsibility for mismanaging disputes between Georgia and the enclaves, pushing them firmly into Russian hands. Yet his mistakes and follies notwithstanding, Russia’s claim that it was “enforcing peace” is preposterous. Despite the terrible atrocities which both South Ossetia and Abkhazia suffered in the early 1990s from the brutal and nationalist government of the Georgian president, Zviad Gamsakhurdia, South Ossetians got on with the Georgians much better than the Abkhaz did. They traded heavily in a smugglers’ market (which Mr Saakashvili shut down in 2004) and lived alongside each other peaceably.

“Georgians always helped me and I don’t feel any pressure now,” says a South Ossetian woman who got trapped in Gori after the Russian attack. This is not a comment frequently heard in Abkhazia. Mr Saakashvili’s nationalistic approach to separatist conflicts certainly did not help, but had it not been for Russia supporting South Ossetia’s corrupt regime, the two sides would not have gone to war. And instead of containing the conflict Russia deliberately spread it to Abkhazia.

Tales of horror

Russia was prepared for the war not only militarily, but also ideologically. Its campaign was crude but effective. While its forces were dropping bombs on Georgia, the Kremlin bombarded its own population with an astonishing, even by Soviet standards, propaganda campaign. One Russian deputy reflected the mood: “Today, it is quite obvious who the parties in the conflict are. They are the US, UK, Israel who participated in training the Georgian army, Ukraine who supplied it with weapons. We are facing a situation where there is a NATO aggression against us.”

In blue jeans and a sports jacket, Mr Putin, cast as the hero of the war, flew to the Russian side of the Caucasus mountain range to hear, first-hand, hair-raising stories from refugees that ranged from burning young girls alive to stabbing babies and running tanks over old women and children. These stories were whipped up into anti-Georgian and anti-Western hysteria. Russian politicians compared Mr Saakashvili to Saddam Hussein and Hitler and demanded that he face an international tribunal. What Russia was doing, it seemed, was no different from what the West had done in its “humanitarian” interventions.

There was one difference, however. Russia was dealing with a crisis that it had deliberately created. Its biggest justification for military intervention was that it was formally protecting its own citizens. Soon after Mr Putin’s arrival in the Kremlin in 2000, Russia started to hand out passports to Abkhaz and South Ossetians, while also claiming the role of a neutral peacekeeper in the region. When the fighting broke out between Georgia and South Ossetia, Russia, which had killed tens of thousands of its own citizens in Chechnya, argued that it had to defend its nationals.

But as Mr Bildt argues, “we have reason to remember how Hitler used this very doctrine little more than half a century ago to undermine and attack substantial parts of central Europe.” In the process of portraying Georgia as a fascist-led country, Russia was displaying the syndrome it was condemning. And it did not seem to mind when, as Human Rights Watch (HRW) reports, ethnic Georgian villages were looted and set on fire by South Ossetian militia. “The remaining residents of these villages are facing desperate conditions, with no means of survival, no help, no protection, and nowhere to go,” says Tanya Lokshina of HRW.

The biggest victims of this war are civilians in South Ossetia and Georgia. Militarily, Mr Putin has won, hardly surprisingly. But all Russia has got from its victory so far is a ruined reputation, broken ties with Georgia, control over separatist enclaves (which it had anyway) and fear from other former Soviet republics. Mr Saakashvili, who promised to reintegrate the country when he was elected president, has made this prospect all but unattainable.

The six-point peace plan negotiated by Mr Sarkozy recognises Georgian sovereignty but not its integrity. In practice, this means that Russia will not allow Georgia back into Abkhazia and South Ossetia. According to the same plan, Russia should withdraw its troops to where they were before the war broke out.

So what happens now?

The ceasefire is signed, but it still needs to be implemented. The early signs were not good with looting, killing and rapes in villages in both Georgia and South Ossetia. On August 13th the Americans announced that they would send military aircraft and naval forces to deliver humanitarian aid to the Georgians. This seemed to make more impression on the Russians, who soon began to withdraw, than the agreement in principle by the European Union to send monitors to supervise the ceasefire. A NATO meeting has also been called to reassess relations with Russia.

Much will now depend on how far Russia wants to go and whether it wants Mr Saakashvili’s head on a plate or not. In a confidential conversation with Condoleezza Rice, America’s secretary of state, Sergei Lavrov, Russia’s foreign minister, declared that Mr Saakashvili should go. The conversation was made public at the UN Security Council, infuriating the Russians. Regime change is a Western invention, Russia retorted; Russia will not try to overthrow Mr Saakashvili, but will simply refuse to deal with him.

Other former Soviet republics, including Azerbaijan, Armenia, and Ukraine, have been dealt a lesson, about both Russia’s capacity to exert its influence and the weakness of Western commitments. America’s inability to stop or deter Russia from attacking its smaller neighbours has been devastatingly obvious in Georgia over the past week.

Yet the people who are likely in the end to pay the biggest price for the attack on Georgia are the Russians. This price will go well beyond any sanctions America or the European Union could impose. Like any foreign aggression, it will lead to further stifling of civil freedoms in Russia.

The war in Georgia has demonstrated convincingly who is in charge in Russia. Just as the war in Chechnya helped Mr Putin’s rise to power in 1999, the war in Georgia may now keep him in power for years to come. As Lilia Shevtsova of the Carnegie Moscow Centre argues, if Mr Medvedev still had a chance to preside over a period of liberalisation of Russia, this opportunity is now gone. The war in Georgia will make Russia more isolated. Worst of all, it will further corrode the already weak moral fabric of Russian society, making it more aggressive and nationalistic. The country has been heading in the direction of an authoritarian, nationalistic, corporatist state for some time. The war with Georgia could tip it over the edge.

Caucasian pipelines

The dangers of the safe route

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From The Economist print edition

Georgia's pipelines to the West weren't bombed but they remain vulnerable



IT'S not just the Russian-Georgian conflict that has made August such a rotten month for the West's favourite oil pipeline. On August 5th a pumping station on the 1,100-mile (1,760km) Baku-Tbilisi-Ceyhan (BTC) pipeline in eastern Turkey was set ablaze. The PKK Kurdish separatists claimed responsibility. The entire route, which had been carrying 850,000 barrels of Caspian crude oil a day to Western markets, shut down and world oil prices, which had been falling, nudged up again. BP, which spent $4 billion on BTC and still manages it, put a brave face on things, saying that the disruption would be temporary. But the station was still burning when Georgia and Russia went to war two days later.

The company's other oil pipeline, Baku-Supsa, carrying crude to Georgia's Black Sea coast (now blockaded by Russian warships), had only recently re-opened but was also forced to shut down. On August 12th, even as the conflict was fading, BP stopped putting gas into the Baku-Erzurum gas pipeline. The only pipeline from Azerbaijan that was fully operational this week is the one running through Russian soil to the port of Novorossiisk.

For the past decade Georgia has been championed as a reliable country through which new pipelines, safely controlled by Western companies, could bypass both Russia and Iran. On the face of it, the past week has made a mockery of that claim. But not completely. Georgia will point out that its energy infrastructure survived the war unscathed: no pipeline was bombed. Russia, mindful of the need for good relations with Azerbaijan and Turkey, has been careful to point out that this was not an oil war.

Yet the crisis—including the dangerously unresolved dispute between Armenia and Azerbaijan over Karabakh—raises wider issues. South Caucasus is supposed to be the location for the next generation of so-called "fourth corridor" projects, by means of which Western strategists dream of ending Europe's dependence on Russian gas and getting Caspian gas to European markets.

The jewel in this scheme, the Nabucco pipeline—designed to ship Caspian gas to Europe in 2013—is already in trouble for lack of unequivocal European support, a rival Russian scheme called South Stream and the fact that there is no major Western energy company based upstream in Turkmenistan to lobby for the deal. One of the first foreign-policy initiatives by Russia's president, Dmitry Medvedev, was to court Azerbaijani and Turkmen leaders in order to persuade them to sell their gas to his country. With an eye on events in Georgia, they must now decide how to respond to his friendly advice.

Cities and housing

The end of the dream?

Aug 14th 2008 | MORENO VALLEY
From The Economist print edition

The suburbs have been hit hard by the housing crisis. But reports of their death are exaggerated

Getty Images



“KEEP your house” reads the handwritten sign on a chain-link fence some 60 miles east of downtown Los Angeles. It is an advertisement, although it could be the attitude of an overstretched buyer who owes the bank more money than his home is worth. Many people in Moreno Valley have simply walked away from their properties. As abandoned lawns turn brown in the desert climate, the fallout spreads. It is no longer a matter of saving individual houses, but a whole city.

Until recently Moreno Valley was one of the fastest-growing cities in America. It lies in the Inland Empire, a two-county region in southern California that is so called largely because it is difficult to know how else to characterise such a sprawling expanse of detached homes, strip malls and warehouses. Between 1990 and 2007 the Inland Empire’s population grew from 2.6m to 4.1m—the equivalent of adding a city the size of Philadelphia.

As in other regions now suffering from a rash of foreclosures and falling house prices, such as south Florida and Nevada, rapid growth is itself largely to blame. Moreno Valley had the misfortune to swell at a time of lax lending practices. Whole neighbourhoods were built on cheap credit and inflated expectations—palaces for the middle class. Around Camino del Rey, on the city’s southern edge, huge Spanish-style houses with three-car garages sit empty. The city’s population growth appears to have gone into reverse. Moreno Valley’s high schools expected to enrol 9,850 pupils last year. They fell short by 780.

Fewer people with less disposable income is bad news for shopkeepers. The Moreno Valley commerce centre (a strip mall, despite the grand title) has six vacant units in its main building. Stores along Alessandro Boulevard, the city’s main drag, have been occupied by Pentecostal churches—a sure sign of low rents. John Husing, an Inland Empire economist, says the housing slowdown has scared off financial-services and civil-engineering firms, for the moment at least.

A bigger economic threat is just coming into focus. The Inland Empire is America’s warehouse: goods, mostly from China, are sorted and assembled there before being distributed across the country. Until recently increasing trade could be counted on to prop up the economy. Traffic through the ports of Long Beach and Los Angeles, America’s two biggest by container volume, levelled off only briefly during the

early 1990s recession and continued to grow in 2001. Now it is declining. In June imports through the two ports were 15% and 12% below last year's level. Moreno Valley's office-vacancy rate is already the highest in the region.



All this would be a shock to any city, but it is particularly startling in a place used to double-digit percentage increases in tax revenues. Moreno Valley has been forced to tap its reserves to make up a $7.1m shortfall. That may grow, says Bob Gutierrez, the city manager. State politicians are still trying to close an enormous hole in California's budget, which is now seven weeks late. When it comes, the budget is likely to involve a raid on local finances that will put places like Moreno Valley further in the red.

Despite the gloom, a few souls are rather cheerful. Public-transport advocates and planning groups such as the Congress for the New Urbanism have seized upon the crisis in far-flung regions like the Inland Empire as evidence that sprawl is no longer viable. "The frontier of endless mobility that we've known our entire lives is closing," wrote Bill McKibben, an environmentalist, in the *Washington Post*. At last, the urbanists predict, Americans will return to city centres. They will swap their sport-utility vehicles for public transport and begin to act more like well-behaved Europeans.

Some of these cheerful forecasts appear to be coming true. Across southern California, use of the skeletal rail network is rising. Property prices are indeed holding up fairly well in older neighbourhoods near the coast. It can be difficult to convince people in Beverly Hills or Santa Monica that the state has a housing crisis. But the growing price gap between such burghs and places like Moreno Valley can be read in two ways. It is both a sign of the suburbs' plight and the thing that is gradually renewing their competitive edge.

The Inland Empire's housing market did not collapse because people chose not to live in sprawling suburbs. They clearly did, hence the huge growth there. The problem was that buyers could not really afford the houses that were being built. Now they can. Mr Husing reckons 39% of residents can now afford the average property—up from just 18% in 2005. House-builders are at last creating smaller homes, and a few buyers are returning. Now the task is to ensure that neighbourhoods are not snapped up by slumlords. The nearby city of Grand Terrace has done that in part by levying a small tax on renting.

Places like Moreno Valley retain two enormous advantages over traditional cities. They have lots of cheap, available land and a pool of workers keen to avoid the ever-lengthening commute to Los Angeles and Orange County. When it comes to attracting businesses, these two factors outweigh high petrol prices. The city of Ontario, which contains the Inland Empire's main airport, already has more than two jobs for each home. Greg Devereaux, the city's manager, reckons it will eventually have more than three.

Bill Batey, Moreno Valley's mayor, is frank about the city's present problems. When asked about its future, though, he brightens. Pointing to a large aerial photograph on the wall, he outlines plans for a new warehouse, a cluster of medical offices and a lot more houses. There is plenty of empty space in the photograph; indeed, there is a huge expanse of bare earth directly across the street from city hall. The frontier is not closed yet.



Detroit

One step forward, two back

Aug 14th 2008 | DETROIT
From The Economist print edition

A mayor who seems to spend more time in court than in city hall

A PATCH of pavement outside the district court has become a second home for Detroit's reporters. On August 7th their mayor, Kwame Kilpatrick, spent a night in jail for violating his bond terms in a perjury case. The next day he was charged with assault, bringing his total roster to 14 counts. He was in court again on the 12th and is scheduled to return on August 14th and 15th. Known for his style, the mayor now wears an anklet adorned with a tracking system.

Such chaos would damage the healthiest city. But Detroit's population has fallen by half since 1950; almost one-third of its residents are poor; and its car industry is in a long decline. For a town with an image problem, Mr Kilpatrick is hardly helping.

In the seven years since he was elected, at 31, Detroit has made some progress. Although there had been warning signs, such as rumours of a raucous party at his mansion in 2002, most people thought Mr Kilpatrick was a gifted politician, with charisma, business savvy and an instinct for sound governance. His triumphs included staging the Super Bowl in 2006, which put a sheen on this rusty city, and last year convincing Quicken Loans, a mortage lender, to move its headquarters downtown. Investment in residential housing shot up. In 1997 Detroit doled out 100 building permits; in 2005 it granted 1,053. Business leaders found Mr Kilpatrick an able partner, says Doug Rothwell, president of Detroit Renaissance, a group of executives who promote local growth. One of their most fruitful collaborations has been to transform the city's waterfront.

This recovery is threatened in two ways. First, the dismal economy. The city had the highest foreclosure rate in America last year, according to RealtyTrac. It also has one of the highest unemployment rates—17.7% in June, not seasonally adjusted—in a state with plenty of competition. And in the past year GM and Ford have each posted their worst quarterly loss ever.

Less directly harmful, but just as insidious, is the mayor's scandal. In January the *Detroit Free Press* published text messages between Mr Kilpatrick and his former (female) chief of staff ("And did you miss me, sexually?""Hell yeah!"). More damaging, Mr Kilpatrick allegedly lied about the affair while testifying in a lawsuit that policemen had filed against the city. The $8.4m settlement included a side-deal to keep the texts hidden.

Since the article was published, the mayor has spiralled downwards. In March he was charged with 12 counts, including perjury and obstruction of justice. This month he went to jail, then was charged with assault for shoving a sheriff. The city council will begin hearings on August 18th to consider whether Mr Kilpatrick violated the city's charter and should be removed. Michigan's governor will begin her own hearing on September 3rd.

Mr Kilpatrick remains defiant. He has hired a posh lawyer and a public-relations firm. A member of this PR team, Marcus Reese, insists that the city council has political motivations—the council president will become acting mayor if Mr Kilpatrick leaves office. The circus is likely to drag on, at no small cost, with things more or less at a standstill at city hall.

The scandal has also had a more subtle effect. In March Mr Kilpatrick declared that he had been "called a nigger more than any time in my entire life" and that "this unethical, illegal lynch-mob mentality has to stop". Edgar Vann, pastor of a large black church in Detroit, contends that this was simply "pandering to racial sensitivities". More than 80% of city residents are black. Relations with the suburbs have been strained for decades. In 2006 six civic groups launched "One D" to foster regional and racial co-operation. But now any efforts to nurture alliances between city and suburbs, blacks and whites will be more difficult than ever.

Technology and the campaigns

Flickring here, twittering there

Aug 14th 2008 | NEW YORK
From The Economist print edition

The battle to master new media becomes ever more intense

ON JULY 30th John McCain's campaign released an anti-Barack Obama advertisement on the McCain YouTube channel. The ad compared Mr Obama's celebrity to that of Paris Hilton and Britney Spears. By August 13th it had been viewed 2m times, TV and newspapers had taken it up, a bikini-clad Paris had launched a spirited riposte ("Thanks for the endorsement, white-haired dude") and it was still the most viewed clip on the McCain channel. In reply, Mr Obama's campaign launched "Low Road Express", a website that mocked Mr McCain's reputation for straight talk. On July 31st the Republican National Committee launched "Obama Audacity Watch", to track less-than-glowing stories and clips about him.

Last year, seven of the 16 major presidential contenders kicked off their campaigns online. Andrew Rasiej, a former Howard Dean adviser and founder of Personal Democracy Forum, a website and annual conference that explores the relationship between politics and technology, thinks the internet will change not only campaigns, but also democracy itself. He points to Utah's Politicopia, an open wiki (a collaborative website where content is added or modified) through which citizens can influence the legislature.

Politicians began to take the internet seriously during Mr Dean's 2004 presidential run. Visitors to his website could donate money, read and comment on the campaign blog and find other supporters. Although Mr Dean's campaign later went down screaming, his run showed the power of self-generating social networks. Without the campaign's knowledge, his supporters began to talk and raise funds through Meetup and Deanspace.

This changed the way campaigns are organised. Using social-networking tools, Ron Paul's supporters generated a "money bomb"—$6m in one day, shattering the previous record. Huck's Army, an online network of Mike Huckabee's supporters, rallied 12,000 campaign volunteers. Both networks meant that Mr Paul and Mr Huckabee stayed in the race a lot longer than they might otherwise have done.

Mr Obama took it another step, raising more money—seen in real time—from the grassroots than any campaign ever. In June alone he raised a near-record $52m, of which $31m were donations of $200 or less. Arianna Huffington, co-founder of the *Huffington Post*, says that he has "succeeded in translating what was happening online to getting the vote out". Mr Obama has 1.3m supporters on Facebook, a popular social-networking site; John McCain has only about 200,000 (see chart). The Democrat is using Twitter, a social-networking and micro-blogging service featuring instant messaging (each answer, or "twit", is limited to 140 characters). By signing up to Mr Obama's twitters, the campaign at once signs up to yours.

WWWay ahead
Share of presidential candidate internet hits, %
Sources: techPresident; Hitwise

This, says Mr Rasiej, proves that Mr Obama "understands the DNA of the internet". Mr McCain frankly admits he doesn't. But this may not matter, says Patrick Ruffini, who worked on George Bush's 2004 run and is co-founder of The Next Right, an online hub for centre-right activism. "What matters a lot are the tactics he employs." The Republicans are beginning to raise their game to compete with Mr Obama's skill.

Peter Daou, Hillary Clinton's internet director, says that YouTube, even more than Facebook or MySpace, has had a huge impact on the campaign. Will.i.am's ode to Mr Obama, "Yes we can", has had nearly 9m views since it was uploaded six months ago; some 1.9m have watched the McCain Girls'"Raining McCain" over the past four months. Thousands of clips created by ordinary people have been uploaded, to be

shared in blogs and often covered by traditional media too.

Both nominees have their own YouTube channels. Mr Obama’s videos have had 52m views, Mr McCain’s 9.5m. Mr Obama’s entire 37-minute speech on race in America has been viewed 4.7m times on YouTube. But the inflamatory sermons of his former pastor, Jeremiah Wright, have also been seen by millions.

YouTube is moderating a joint Democrat and Republican contest. Each party is asking YouTube users to submit two-minute clips explaining why they will support either Mr McCain or Mr Obama. The winner of each will receive a trip to their party’s convention. The conventions themselves are more “techie” than ever before. Twitter feeds, Facebook pages, MySpace profiles and Flickr, an online photo album, will be on offer as well as YouTube.

Texting from mobile phones is also playing a role. Some 255m people have mobile phones in America, and about two-thirds of these, in almost every age group, use texts. On August 12th Mr Obama sent out an e-mail inviting supporters to sign up to receive an email or a text to be the first (or in the first few million) to know who he picks as his running mate.

Much of Mr Obama’s support comes from members of the Millennials, the group of young people born roughly between 1978 and 1996. According to the New Politics Institute, the number of eligible Millennial voters will be close to 50m this year and about a third of all voters by 2016. About 90% of them are online, compared to 75% of all adults. Two-thirds of internet users under the age of 30 have a social-networking profile, and half of these use the sites to get information about politics or the campaigns.

Older, and historically more reliable, voters still prefer to use TV and newspapers to keep up with politics. But about 40% of all Americans get their campaign news from the internet, according to the Pew Internet & American Life Project. Around 20% go online at least once a week to do something related to the campaign, and about 10% use social networks to get information or to become more involved. Technology has undoubtedly transformed the campaigns. It is still unclear what effect it will have on election day.

Animal conservation

Once more to roam

Aug 14th 2008 | ST LOUIS
From The Economist print edition

Is it safe to let bison return to the unsupervised wild?

TO THE earliest explorers they seemed almost infinite, a dark pulsing mass stretching to the horizon. But the vast throngs of bison or buffalo grazing on the Plains, by some estimates as many as 60m, were not endless. Relentless hunting and the approach of civilisation reduced them to a last herd of 300 in 1893. Now they are being slowly reintroduced into the wild.

As many as 200,000 bison are currently raised commercially, to satisfy a growing demand for a meat that is leaner and richer in protein than beef. But wild bison, which are held in federal and state preserves, number fewer than 20,000.

The first reintroduction will probably take place in Alaska, where the Wood Bison, a larger cousin of the more familiar Plains Bison, is waiting to clear a two-year quarantine for brucellosis, a disease that afflicts both livestock and humans. The Wood Bison was also hunted to the point of extinction before a few were saved. For the current plan, Alaskan wildlife authorities imported a number of the animals from Canada. When the bison are released in 2010 the herd will be protected from hunting until the population re-establishes itself.

Introduction in other states will be harder and will take much longer. About half of Yellowstone National Park's 3,000 bison have been exposed to brucellosis. Bison straying beyond the park boundaries into cattle-grazing lands have been slaughtered or chased back inside. Any bison found to have the disease is killed. Since last autumn as many as 1,600 Yellowstone bison have been shot outside the park.

The present effort now focuses first on eliminating the brucellosis threat. Cattle-ranchers, who have worked hard to eliminate the disease from America, fear that the wild bison will infect their herds and damage the industry, particularly the overseas market. Some environmentalists counter that there is no recorded case of bison-to-cattle transmission. One proposal, which would keep the animals more separate, would replace cattle with bison on federal grazing lands. Some wildlife groups are raising funds to purchase tracts of land for future herds.

Native Americans have a big stake in the reintroduction. For many Plains tribes the bison was the centre of their existence, spiritual as well as physical. If all goes well, the first bison could be sent to a reservation later this year. There they will serve five years' probation before, if all goes well, being returned to the wild.

The swing states: North Carolina

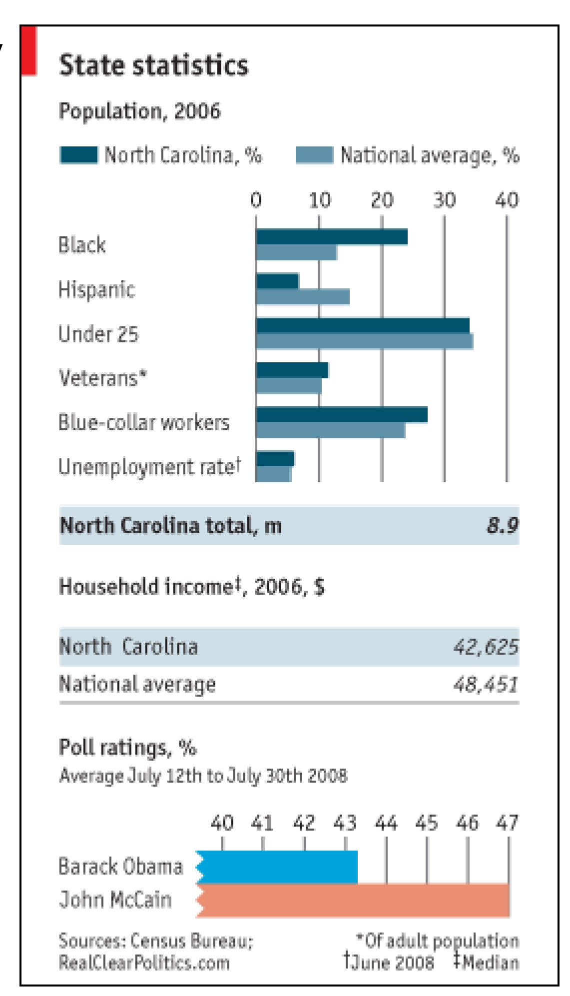
Grits with arugula?

Aug 14th 2008 | RALEIGH AND GREENSBORO
From The Economist print edition

Barack Obama wants to turn this state Democratic. That will be harder than he thinks

THE past few years have been difficult for Mark Paylor, a pig, cattle and grain farmer. On a sunny summer morning in Greensboro he complains that rising petrol and feed prices have driven up his costs so far that it is impossible to compete with cheap imports. He is disgusted by trade agreements that let Mexico send America jalapeños riddled with salmonella, when American farmers have to play by stricter rules. Mr Paylor is a black and a Democrat, and he clearly wants change. He will not vote for John McCain. But he does not have much faith in Barack Obama, either: "He might put on a show to win, but he don't understand."

That comment suggests why Mr Obama faces an uphill climb in North Carolina. As swing states go, North Carolina is an unlikely prospect for the Democrats. It is a culturally conservative southern state that has voted for the Republican in every presidential election since 1976. In 2004 George Bush clobbered John Kerry here by a 12-point margin, even though Mr Kerry's running mate, John Edwards, was North Carolina's senator at the time (see article).



When the Obama campaign announced that it would contest the state, it was seen as a feint: a way to force Mr McCain to spend precious time and money in what should be a safe spot for him. Chris McClure, the executive director of the North Carolina Republican Party, dismisses swing-state chatter as hype peddled by the other side. "Voters are smart," he says. "You have to have more than a speech to win this state." Even Mr Obama's supporters are sceptical of the suggestion. If he wins here, they say, the national election will not be a close one.

But with 15 electoral votes and some helpful demographic trends, North Carolina is tempting to Democrats. If Mr Obama wins here, he could bin Virginia (13 votes) or recover from a rout in Michigan (17). The idea that he could carry North Carolina is not so far-fetched. In a poll taken from August 9th-11th by SurveyUSA, Mr McCain led Mr Obama by only four points, 49%-45%. Back in May, the same outfit had Mr McCain ahead by eight points. The Obama campaign insists that its interest in North Carolina is sincere, and it is pouring money and people into the state. It spent $2m on advertisements in June and July, and has opened more than a dozen offices. Mr Obama has several hundred staffers and more than 3,000 volunteers, most of them working on voter registration.

North Carolina's rural counties have been hit hard by job losses in the textile mills and tobacco fields. "Many of them haven't been able to find the next best thing," says Michael Walden, an economist at North Carolina State University. He sees the brain drain playing out among his own students, who arrive in Raleigh planning to return to small-town life but, after a few years, often change their minds.

The cities are another story. With its excellent universities and friendly statehouse, North Carolina is a good place to do business. Charlotte, in the south, is the country's second-largest financial centre. The Research Triangle centred on Durham, Raleigh and Chapel Hill is a hub for biotech and software companies. Economic development has spurred population growth; North Carolina now has nearly 9m

people, up from 8m in 2000. And the newcomers are a bit more liberal than the natives.



Obama supporters calculate that if they add enough people to the voting rolls, they can put the state in play. During the primary season they signed up 165,000 people, and Mr Obama beat Hillary Clinton by about 225,000 votes. G.K. Butterfield, a congressman who supports Mr Obama, has said that the campaign plans to register 120,000 new black voters. Some 21% of North Carolinians are black, and they heavily favour Mr Obama.

The McCain campaign also plans to register new voters, but its ground organisation is much smaller. Until recently it was running its North Carolina effort from Tallahassee in Florida. On August 11th it opened a handful of Victory Offices round the state, with little fanfare. The enthusiasm gap between the candidates should worry Republicans. Mr McCain won North Carolina's Republican primary in May, but he was already the presumptive nominee at that point. Republicans here admire his navy service, a big selling point in a state with seven military bases. But he struggles to connect with the rural and religious voters who gave Mr Bush huge margins last time. At the opening of his office in Greensboro, local Republicans said they were happy but not thrilled with Mr McCain. Their stronger feeling was hostility to Mr Obama. "I think he should go back to Chicago and stay," said Phyllis P. Gibbs, politely. "If he is elected it won't take but two years for people to be very sorry. We will become a socialist country."

Mr Obama's supporters are also cheered, however, by Democratic strength at the state level. North Carolina has had Democratic governors for the past 15 years, and both houses of its legislature have a Democratic majority. Democrats also have a substantial edge in voter registration: of the state's 6m voters, 2.7m are Democrats, compared with 1.9m Republicans. But Ferrel Guillory, a political scientist at the University of North Carolina, says that such measures may be deceptive. Some of those Democrats, for example, are "Jessecrats"—conservative older folks who have never bothered to change their party registration even though other conservatives, such as the late pugnacious Jesse Helms, switched to the Republicans.

"The voters here have been much less tolerant of ideology in their state office-holders than in their federal office-holders," explains Mr Guillory over grits and sliced tomatoes at Big Ed's City Market in Raleigh. Senators may dabble with running for president or trumpeting the conservative agenda. Governors are expected to be more pragmatic than partisan, "to put on a suit, go sit behind that desk, and keep the schools open."

Mr Guillory adds that Democrats who succeed in North Carolina are those who can reach out to culturally conservative white voters. Mr Kerry, a windsurfer, could not manage this. Mike Easley, who won re-election as governor that year, could. He once crashed a racing car near Charlotte, for example, and that endeared him to stock-car racing fans. "When Obama goes before a black audience and talks about the need for fathers to be present and hug their kids and all that, that's as appealing to a white audience in the South as it is appealing to a black audience," Mr Guillory says. "And if Jesse Jackson doesn't like it, so much the better among white voters."

Mr Obama has no reason not to contest North Carolina. $2m is pin money for his fundraising machine. And he may be able to succeed in the numbers game. But he should keep voters like Mr Paylor in mind,

in case he actually wins it.

John Edwards

Tail between his legs

Aug 14th 2008 | CHARLOTTE
From The Economist print edition

A disappointingly grubby coda to a political career

EPA



Not so pretty now

ON AUGUST 8th, as the Olympics ceremonies were being broadcast and Russian tanks were rolling into South Ossetia, John Edwards, a former presidential candidate, admitted to an affair. The other woman, Rielle Hunter, was a hippie from Florida who had worked on his campaign. In his (curious) defence, Mr Edwards said that he had never loved her. He added that the affair had ended before his wife, Elizabeth, was diagnosed with an incurable form of breast cancer. He would be happy to take a paternity test, he said, but was sure that the baby could not be his.

Mr Edwards, with his molasses accent and concern for America's underdogs, was once a rising star in the Democratic Party. As a bright young tort lawyer, he was elected to the Senate on his first try in 1998 and was picked to be John Kerry's running mate in 2004. Shortly before that election, his wife, Elizabeth, discovered she had cancer. After she had had treatment, Mr Edwards decided to run for president again. But the cancer metastasised and returned in 2007. The couple decided to carry on, and Mrs Edwards became her husband's most effective advocate on the trail. Part of her effectiveness was to cover up his affair, which she had known about since 2006.

Mr Edwards's confession came after months of speculation and two weeks of an internet circus. The *National Enquirer*, one of the less disreputable supermarket tabloids, reported last year that Mr Edwards had been carrying on with a campaign staffer. He dismissed the allegation. In December the tabloid said the woman was pregnant. Mr Edwards denied any involvement. On July 22nd the *Enquirer* came back with a report that Mr Edwards had met his mistress and their love child in a Beverly Hills hotel and that, when cornered, Mr Edwards hid in a lavatory. A few days later the paper produced a grainy "spy photo" of Mr Edwards holding a baby.

Under mounting scrutiny, Mr Edwards came clean, sort of. Questions remain, but the sordid details are ultimately inconsequential. Democrats are furious that Mr Edwards would run for president with such an explosive secret. They also say that Mrs Edwards should not have let him run. In fact, if Mr Edwards had been a top candidate, he would have been under too much scrutiny to clown around with a mistress on the campaign trail. He was willing to risk his party's prospects, but the Democrats were never in danger.

Nor will there be much fallout from his exposure. Republicans shouldn't crow over the scandal. After all their own presidential nominee, John McCain, was still married to his first wife when he took up with Cindy.

Lexington

The next Billy Graham

Aug 14th 2008
From The Economist print edition

Rick Warren has emerged as the most powerful evangelical in America





ON AUGUST 16th John McCain and Barack Obama will both appear at one of America's great mega-churches, Saddleback, in Lake Forest, California, to discuss "leadership and compassion". The result of the "discussion"—it is not a formal debate because the candidates will be appearing in sequence rather than side by side—will not only help "values voters" decide which man they support. It could also determine whether the host of the event, Rick Warren, can lay claim to one of the most sought-after titles in America, that of "the next Billy Graham".

Billy Graham has been the most powerful Christian in America since the 1950s. Eisenhower summoned Mr Graham on his deathbed. Richard Nixon played golf with him. George Bush senior called him "America's pastor". George Bush junior credits him with planting the "mustard seed" of faith in his heart. When Mr Graham was hospitalised in 1976, three presidents (Nixon, Ford and Jimmy Carter) rang him in a single day.

But Mr Graham is 89 years old and unwell. He led his last "crusade", in Flushing, New York, in 2005. He now seldom leaves his home in Montreat, North Carolina. He remains a name to conjure with: John McCain recently visited him to pray for "God's will to be done in the upcoming election". But for the most part the prophet has retreated to the mountain-top.

Which raises the inevitable question: who will replace Mr Graham as "America's pastor"? For many Americans this is a silly question. The American constitution is based on the strict separation of church and state. What's more, Mr Graham was the result of a unique confluence of forces, such as the cold war between "godless Communism" and a godly America and America's embrace of a bland civil religion in the wake of the second world war. None of this is remotely relevant in today's America, with its religious diversity, cacophonous culture wars and out-of-control political partisanship.

But America has always been engaged in a delicate balancing act between its secular constitution and the religious instincts of its population. Mr Graham was only one in a long line of America's pastors that included Charles Finney, George Whitefield and Dwight Moody (after whom Dwight Eisenhower was named). And Mr Graham was not quite the bland preacher of consensus that he now appears. He once described Eden as a paradise with "no union dues, no labour leaders, no snakes, no disease", and infuriated the left in the 1960s by refusing to come out against the Vietnam war.

Americans continue to have a healthy appetite for religion in public life—so long as it is not too hard-edged or divisive. Americans are not only overwhelmingly religious—92% say they believe in God and 63% believe that the Bible is the word of God—but they also believe that religiousness is a sign of good character. Only 46% of Americans say that they would vote for an atheist for president, compared with 56% who would vote for a homosexual and 93% who would vote for a black. All this year's serious presidential candidates wore their religion on their sleeves.

There are plenty of candidates for Mr Graham's unofficial job, such as Mr Graham's son, Franklin, who has inherited his father's striking looks as well as his organisational abilities, and mega-preachers such as T.D. Jakes and Joel Osteen. But all have drawbacks. The younger Mr Graham has described Islam as "a very evil and wicked religion" and Messrs Jakes and Osteen are too attached, both personally and theologically, to the "prosperity Gospel". None of them has Mr Warren's combination of qualities.

Mr Warren could hardly look less like Mr Graham—he has a beard rather than a lantern jaw and sports open-necked shirts, mostly of the Hawaiian variety, rather than a suit and tie. But the two have a remarkable amount in common, from their Southern Baptist faith to their entrepreneurial skills.

Both men have proved to be geniuses at adapting religion to their times. Mr Graham took the barbed-wire fundamentalism of his youth and reshaped it for the post-war era of two-car garages and upward mobility. Mr Warren took post-war evangelicalism and reshaped it, yet again, for the world of suburban anomie and the search for meaning.

This required entrepreneurial skills of a high order. Mr Graham founded two of the most powerful organisations in post-war evangelicalism, Christianity Today and the Billy Graham Evangelistic Association. Mr Warren has become a one-man dispenser of "purpose". More than 400,000 pastors have attended his seminars on the "purpose-driven church", and more than 30m people have bought his book, "The Purpose-Driven Life". Mr Graham has preached to some 215m people in 185 countries. Mr Warren, though not yet in that league, is also going global, not only with his preaching but also with his charitable work.

Both men also share political skills of a high order. Like Mr Graham, Mr Warren allowed himself to get too close to the Republican Party. In 2004 he supported Mr Bush behind the scenes, taking part in White House conference calls and informing thousands of pastors that they should regard issues such as abortion and gay marriage as "non-negotiable". But like Mr Graham, he has realised that you need to tread lightly on those non-negotiables if you want to preserve your influence. He is now emphasising poverty, HIV-AIDS, global warming and overseas aid.

A purpose-driven man

The evangelical voters who will watch Messrs McCain and Obama on Saturday are unusually confused in this election cycle: lukewarm about the Republican but also unsure about his Democratic rival, weary of the culture wars but also unwilling to discount a role for religion in public life. The man who understands this voting block better than anybody else is Mr Warren—and, whoever comes out on top in November, Mr Warren will be there to whisper in their ears.

Bolivia

Evo's big win

Aug 14th 2008 | LA PAZ
From The Economist print edition

A recall referendum strengthens the socialist president, but fails to knock out his opponents in a still-divided country

Reuters



THE jubilant crowds, chanting "Evo, brother, the people are with you", that gathered in front of Bolivia's presidential palace on August 10th appeared to sense that their country's socialist president had notched up an important victory in a recall referendum that might have seen him chucked out of office after just 30 months. And so it proved: with 96% of the ballots counted, Evo Morales and his vice-president, Alvaro García Linera, had won the backing of 68% of the voters, substantially more than the 54% they gained in the presidential election of December 2005. A high turnout (of 84%) meant that, all in all, the referendum amounted to a resounding endorsement of Mr Morales, an ally of Venezuela's Hugo Chávez, and his plans to "refound" Bolivia.

For the past year or so Bolivia, a poor country with South America's second-biggest gas reserves, has been deadlocked by a power struggle between Mr Morales and the elected governors of the country's eastern regions. Mr Morales, a former coca-workers leader of Aymara Indian descent, wants a new constitution that would strengthen presidential powers, embed a state-led socialist economy and give more power to the traditional communal leaders of Bolivia's Amerindians. He has much support in the poorer, western part of the country, where he won over 80% of the vote. He is fiercely opposed by the governors of the more prosperous eastern lowlands, whose soya farms and natural-gas fields provide much of the country's wealth. They see Mr Morales as bent on exploiting racial divisions to impose authoritarian socialism on the country, and as driving away foreign investment.

In the referendum voters were asked to cast judgment, too, on their local prefects, as the elected departmental governors are called. Two of Mr Morales's opponents, in La Paz and Cochabamba, were ousted. (They will be replaced with presidential appointees.) But the four eastern governors—of Santa Cruz, Bolivia's business capital; Tarija, the site of the main gasfields; and sparsely populated Beni and Pando—also secured strong new mandates, winning a higher share of the vote than when they were originally elected. Rubén Costas, the governor of Santa Cruz, almost matched the president, winning 64% of the vote there. In unofficial referendums in recent months, residents of these four departments have strongly backed regional autonomy. This opposition front now has the support of the newly elected governor of a fifth department, Chuquisaca.

So the referendum did not give Mr Morales what he most hoped for: a weakening of the eastern block.

Nevertheless, he has come close to breaking Bolivia's deadlock. His victory owes much to his decision to tighten state control over oil and gas, which has bumped up government revenues, allowing him to launch new anti-poverty programmes. Most Bolivians are of at least partly Indian descent; many of them identify with Mr Morales as one of their own. In the run-up to the referendum, the president lambasted his opponents as "racists" and "fascists".



But support for the president also owes much to the weakness of traditional political parties, which are widely seen as corrupt and self-serving. "Bolivians are very pragmatic, there is no alternative national leader, they only had a choice between Evo or a vacuum of leadership," says Javier Gómez of CEDLA, an NGO.

His victory opens the way for Mr Morales to secure approval of the new constitution, in a separate referendum which might be held early next year. But this week's vote also laid bare the depth of Bolivia's regional divide. In the days before it, demonstrators occupied airports to prevent Mr Morales visiting opposition-run cities. Miners, once loyal to him, clashed with police in protests over pensions. These groups are unlikely to remain quiet.

This week Mr Morales called for talks with the opposition. "The people's participation in the recall vote requires us to get together," he said. Mr García Linera, the government's chief negotiator, suggested that the new constitutional draft be amended to include regional autonomy and elected local assemblies.

On August 13th, some of the opposition governors held a preliminary meeting with the president. Compromise will not be easy. The trickiest issue concerns the share-out of gas revenues. Traditionally, a large chunk went to the regions with the gasfields, but Mr Morales has diverted some of this money to pay for his social programmes. In Santa Cruz, Mr Costas this week began a hunger strike to demand its return. If formal talks do get under way, Mr Morales will now be able to bargain from a position of much greater strength.

Nicaragua

Tearing up the rules

Aug 14th 2008 | MANAGUA
From The Economist print edition

Daniel Ortega bans his foes

THOUGH he has been in office for only 18 months, the opinion polls show that Daniel Ortega, Nicaragua's president, is deeply unpopular. But he seems to have found a way to deal with his critics. Mr Ortega, of the left-wing Sandinista movement, is insouciantly presiding over an attempt to rig his country's democracy by excluding parties opposed to him.

For this, he can count on the Supreme Electoral Council (CSE), the supposedly independent electoral authority over which he has great influence. In June it ruled that two smallish opposition parties, the Sandinista Renewal Movement (MRS), on the moderate left, and the Conservative Party had not complied with some paperwork, and therefore did not have legal standing as parties. Both are appealing, but appear to have been ruled out of municipal elections due in November.

The CSE may have been applying the letter of the law, but its decision looks arbitrary: several other small parties whose registration had similar flaws remain on the ballot. The MRS in particular had a reasonable chance of attracting the support of the many disillusioned Sandinistas.

Earlier this year the CSE had also invoked technicalities to remove Eduardo Montealegre, a conservative banker who came second to Mr Ortega in the presidential election, from the leadership of his party, the Nicaraguan Liberal Alliance (ALN). Mr Montealegre's party split from the Constitutionalist Liberal Party (PLC), which is controlled by Arnoldo Alemán, a former president convicted of corruption. For several years Mr Alemán and Mr Ortega have colluded in an unholy alliance. While badmouthing each other in public, they have banded together to control bodies such as the CSE and the supreme court. This deal got Mr Alemán out of jail.

It was the Liberal split between Mr Alemán and Mr Montealegre that allowed Mr Ortega to win the presidency with just 38% of the vote. Mr Montealegre has now decided to return to the PLC. He wants to run for mayor of Managua, the capital, in November, and needs a party to do so. Opinion polls give him a narrow lead over the Sandinista candidate, a former professional boxer. But his chances may not be helped by his renewed link with a discredited party. Mr Ortega is also pushing for a legal investigation into Mr Montealegre's involvement in a bank bail-out.

In the 1980s Mr Ortega presided over a revolutionary government. At the last election he campaigned as a moderate. In economic policy, he has largely governed as one. But his political manoeuvring has united a broad civic front against him in recent large demonstrations. He seems unperturbed. Banning opposition candidates has become a new fashion in parts of Latin America: in Venezuela, Hugo Chávez's government has blocked the strongest contender for mayor of Caracas. It is a thoroughly undemocratic habit.

Peru

Lessons from an earthquake

Aug 14th 2008 | PISCO
From The Economist print edition

A town rebuilds, slowly

AP



New houses for the lucky few

A YEAR ago this week, a devastating earthquake hit the Peruvian coast some 200km (125 miles) south of Lima, killing 610 people and destroying or damaging 36,000 homes. Worst hit was Pisco, a once flourishing port where almost nothing was left standing. Peru's president, Alan García, promised to rebuild quickly. There were high hopes that the response would be effective: access to the area is easy, and strong economic growth means that for the first time in a generation both national and local governments have plenty of cash.

A year on, the picture is mixed. The relief effort, involving NGOs as well as the authorities, was largely successful: the injured were swiftly evacuated, and there were no epidemics. Albeit with some delay, nearly all the homeless were temporarily housed in one-room huts with communal showers and kitchens (a handful opted to stay in tents). But reconstruction has been slow. Pisco is a giant building site: new housing estates, roads, schools and hospitals are all going up, but not much has been completed. That is causing much anger and frustration.

There are several reasons for the delay. Mr García set up a reconstruction agency and recruited a businessman to run it, but it was based in Lima and proved unwieldy. Local mayors complained of being sidelined, but many of their own efforts were fumbling.

The government has paid an emergency housing bond of 6,000 soles ($2,025) to almost 30,000 families (some of whom have built new homes). It has also offered further grants of around $5,000 per family. But only those with legal title qualify. Fewer than a fifth of those who lost homes in Pisco had titles, says Juan Mendoza, the mayor. His office has since handed out another 8,500 titles, but he says this could not be done overnight. Before repaving streets, water pipes and sewers must be fixed—but first the national government must rebuild pumping stations and main pipes.

Mr García has born the brunt of complaints about the delays. Some Peruvians note that Venezuela's Hugo Chávez, who noisily backed a populist candidate in Peru's 2006 election, has paid for and built 100 three-room homes in Chincha, further up the coast. But as Peru, like other Latin American countries, decentralises many government functions, including civil defence, it is the shortcomings of local government that most worry disaster experts. They fear that the flaws in the relief and reconstruction effort would be magnified next time disaster strikes in a more remote area.

Cuba and the United States

Patchy blockade

Aug 14th 2008 | HAVANA
From The Economist print edition

The trade embargo that sometimes bites

FOR almost half a century, the United States has imposed a trade embargo against Cuba. And yet it sometimes seems barely visible. Across the island, American brands are ubiquitous. Tourists can order a Coca-Cola (made in Mexico) in state-run hotels. Computers running Microsoft software have appeared in the capital's few electronics stores. A fleet of Ford tankers refuel aeroplanes at Havana's airport. Taking advantage of an exemption introduced in 2000, American farmers have become Cuba's biggest source of food imports, a cash trade worth $600m a year. No wonder that some Cubans wonder whether the "blockade" which the government blames for nearly all of Cuba's problems might be some sort of Orwellian trick. "Does it really exist?" asks a medical student in Havana. "I don't know what to believe anymore."

But plenty of companies that deal with Cuba have recently been reminded that the embargo is real. Last month, the United States' Treasury's Office of Foreign Asset Control, which is responsible for enforcing it, fined Minxia, a Maryland-based subsidiary of China's MinMetals Corporation, $1.2m for dealing in Cuban metals. Gate Gourmet, a Swiss-American group, was ordered to pay $600,000 because it supplies in-flight meals to Cuba's national airline.

Although the embargo has manifestly failed in its objective of removing Fidel Castro's communist regime, in 1996 it was tightened by the Cuban Liberty and Democratic Solidarity Act (better known, after the legislators who sponsored it, as Helms-Burton). This attempts to apply the embargo to foreign companies and individuals. Its extraterritorial pretension riles even many of America's closest allies. It has notably been invoked to ban the directors of Sherritt, a Canadian firm which runs Cuba's nickel mines, from entering the United States. (They included a former editor of *The Economist*). But in deference to those allies, the Act's draconian Title III, which gives Americans who owned property in Cuba before the revolution the right to sue foreigners who now invest there, has been waived every six months, first by Bill Clinton and then by George Bush.

A tightening of America's bank regulation after the terrorist attacks of 2001 has become a bigger impediment to those wanting to do business in Cuba. The United States considers Cuba, along with Iran, North Korea, Sudan and Syria, to be a "state sponsor of terrorism" (though without any recent plausible evidence). Whatever they might think of the Cuban embargo, banks around the world do not want to run afoul of antiterrorism laws.

In 2004 UBS, a Swiss bank, paid a $100m fine (without admitting any liability) for providing new banknotes to Cuba and Iran. In 2007 ING of the Netherlands, which once boasted that it was the first big bank to open an office in Cuba, abruptly closed there. This year, directors at the company which has exclusive rights to import Cuban cigars to Britain, were surprised to receive a letter from Lloyds TSB, their long-time bankers, suggesting that they take their business elsewhere.

Despite all the restrictions, plenty of international companies continue to operate in Cuba. InBev, a Belgian-Brazilian brewer that recently bought America's biggest beer maker, Anheuser-Busch, for $52 billion, has a joint-venture with Cuba's government which claims 40% of the island's beer market. As a director of a European company with a big investment on the island puts it, the best strategy is to "try to stay under the radar and make damned sure you are here when the United States' government finally sees sense."

Canada

The rise of the log mansion

Aug 14th 2008 | OTTAWA
From The Economist print edition

The simple life, at a price

THE Canadian middle classes have long considered a lakefront log cabin in the woods for summer weekends to be as much a part of their birthright as maple syrup. Suddenly this idyll is starting to move out of reach. Property prices might still be plummeting south of the border, but in the lake country around Canada's cities they are soaring.

Nowhere more so than in the Muskokas, two hours north of Toronto. The most expensive cottage there now costs C$8m ($7.5m), up from less than $1m a few years ago. "Cottage" in a manner of speaking, that is. These log mansions come complete with home theatre and lakeside exercise room. It is true that Muskoka has long been a playground for the rich. Those who have summered on its necklace of deep, clear lakes have included Andrew Carnegie, an American steel tycoon, and Hollywood stars such as Goldie Hawn and Tom Hanks. But the price rise has rippled across the lakes, from British Columbia to Quebec.

There are several reasons. There is only so much prime waterfront land within easy reach of the cities, where property prices have been rising too (though they are now peaking). Ageing baby-boomers are choosing to retire to what were once summer-only residences. To live comfortably through the icy blast of a Canadian winter, they build basements, install furnaces, and upgrade kitchens and bathrooms. In the face of new demands for year-round rubbish collection and snow removal, local governments have done their bit to make cottage ownership more expensive by raising taxes.

Affluent young couples, not keen to rough it like trappers in the wilderness, want all the comforts of home, especially internet access so that they can read their e-mails while sitting on the dock drinking beer. "They want to hear the loons and look at an unspoiled view, but then they want to retreat and watch a high-definition movie on a large-screen television," says Phil Soper of Royal LePage, an estate agent that tracks holiday property.

Log cabins have come full circle, says Greg Halseth, a geographer at the University of Northern British Columbia who has studied second-home ownership. Before postwar economic expansion boosted incomes and brought both rural property and car ownership within the reach of the middle class, it was only the wealthy who could afford a country retreat. Now that is again becoming true. Is the simple cabin by the lake gone for ever? You can still find them at an affordable price, says Pauline Aunger, an estate agent in the Rideau Lakes area south of Ottawa, but "just not in proximity to major cities, or any community." The Arctic beckons.




Thailand

Run, Thaksin, run

Aug 14th 2008 | BANGKOK
From The Economist print edition

OnAsia



Thailand's deposed prime minister jumps bail. But political turmoil may persist

GIVEN the avalanche of corruption cases tumbling on Thaksin Shinawatra and his wife Potjaman, it caused some surprise in Thailand when the Supreme Court let them leave the country to attend the opening of the Olympics in Beijing. Right up until the early evening on August 10th, the deposed prime minister's spokesman was insisting that the couple would return that day to Bangkok, to appear in court the next morning. However, they flew instead to London, where they had spent a period in exile following the 2006 military coup.

In a handwritten note faxed to Thai television stations, Mr Thaksin (the puppet-master in the cartoon above) admitted that "I am not a perfect man" but claimed the cases against him were a plot by his political foes, who he said were interfering in the judiciary. He said he hoped to return to Thailand some day but made it sound like that would not be soon. The court was shocked—shocked!—that its defendants had skipped bail, and issued arrest warrants. But its decision to let the couple go to Beijing prompted speculation that they had been given the nod to flee into exile, in the hope of ending Thailand's three-year political stand-off.

The speculation inspired a sharp recovery in Bangkok's stockmarket, which had slumped on fears of all-out violence between supporters and opponents of Mr Thaksin. These fears had intensified in late July when Thaksin fans armed with clubs and axes attacked a demonstration by his opponents in the north-eastern city of Udon Thani, injuring around a dozen.

Hopes for calm may be dashed. The main anti-Thaksin street movement, the People's Alliance for Democracy (PAD), said its protests would continue until they brought down the government, a coalition led by Mr Thaksin's allies and headed in his absence by Samak Sundaravej, a ferocious right-winger (whose strings Mr Thaksin is pulling above). Mr Thaksin is still popular among poorer, rural voters. But the urban, elite PAD might be emboldened to press on with its ideas for a "new politics". What this means in fact is a return to old, pre-democracy politics with a mostly unelected parliament and powers for the army to intervene when it feels like it.

Perhaps a bigger question than what Mr Thaksin's opponents will do next is what his supporters will do.

Those who backed him in repeated elections remain grateful to the first Thai prime minister to give them some tangible benefits, such as cheap health care and village development funds. This has, so far, inclined them to excuse the strong whiff of corruption, and other abuses of power, around his government. Before the 2006 coup his supporters staged huge demonstrations to counter those of his opponents. If these now resume, there is a risk of violence.

Mr Samak will try to soldier on in government, although his People's Power Party faces being dissolved for electoral malpractice, as was its predecessor, Thai Rak Thai. The mostly anti-Thaksin Bangkok press is talking up rumoured splits in the ruling coalition. But it has consistently underestimated the Thaksinites' sticking power so far. Mr Samak seems to be trying to build bridges to the royalist and military establishment, making friends with General Anupong Paochinda, the army chief, and appointing Tej Bunnag, one of the king's advisers, as foreign minister. But Mr Samak's plans to rewrite the constitution, drawn up last year by a military-appointed panel, may cause fresh splits.

Indeed, it is still not clear what is the root cause of Thailand's political conflict. Some academics suggest that it is essentially about the royalist establishment's alarm that Mr Thaksin was building a base of public support to rival that of King Bhumibol. They may fear what will happen when the 80-year-old king's reign ends. The PAD dresses itself in royal yellow and says it is saving Thailand from Mr Thaksin's "republicanism". Such matters cannot be discussed openly in Thailand because of its draconian *lèse-majesté* laws, which are often abused to sling mud at opponents (see article).

The Thai courts will probably go through the motions of trying to bring Mr Thaksin back to face justice. He may persuade the British courts not to extradite him, arguing he would be denied a fair trial. Of course, the Thai prosecutors and courts could prove him wrong: they could now pursue the various allegations against anti-Thaksin generals, bureaucrats and politicians with the same vigour as they are applying the law to Mr Thaksin.

Thailand's lèse-majesté law

No disrespect

Aug 14th 2008 | BANGKOK
From The Economist print edition

More royalist than the king

ONE of the shabbiest but most popular tricks in Thai politics is to accuse your critics of disloyalty to revered King Bhumibol. Anyone can file a police complaint of *lèse-majesté* on the king's behalf and the penalty is up to 15 years in jail. During the current political conflict, like past ones, such allegations have increased, sometimes based on fairly trivial references to royalty.

A union official at a clothing factory was sacked on July 30th for wearing a T-shirt supporting the right of people not to stand when the royal anthem is played. Her T-shirt referred to a *lèse-majesté* complaint filed against a man who stayed seated during the anthem in a Bangkok cinema last September.

Supposed *lèse-majesté* by Thaksin Shinawatra was one of the excuses army chiefs gave when deposing him in 2006, though they never produced any evidence. His critics continue to accuse him of plotting a republic. Last month police arrested Daranee Charnchoengsilpakul, a pro-Thaksin campaigner, for alleged anti-royal comments; they then questioned Sondhi Limthongkul, leader of the anti-Thaksin People's Alliance for Democracy, for supposedly quoting Ms Daranee's remarks at a rally.

In May Jakrapob Penkair, a government minister, resigned after police filed charges over remarks he had made at Bangkok's Foreign Correspondents' Club about Thailand's "patronage system". A complaint has been filed against the BBC's Bangkok correspondent for remarks made at another club debate. In March a Swiss man was jailed for ten years for defacing the king's portrait but was pardoned and deported.

The Thai public is unable to judge the merits of these supposed offences because the press cannot explain them properly without being accused of repeating the crime. The king said in 2005 that he could be criticised and was not afraid of this. But those posing as his majesty's protectors conveniently forget his words. So, despite their democratic institutions, Thais are not free to debate matters regarding their head of state, including appropriate limits on criticising him. It is likely the affection and respect that most Thais have for their 80-year-old king attaches mainly to his charismatic personality, not the royal family or the monarchy as an institution. Some day, then, the pressure for a more open debate may become unstoppable.

Beijing's economy

Going for gold

Aug 14th 2008 | BEIJING
From The Economist print edition

The Olympics have not brought Beijing's businesses the boom they hoped for

YABAO ROAD in Beijing's embassy district is normally bustling. Russian traders scour its wholesale shops for furs and boots. Hawkers throng the pavements. The street is jammed with taxis and pedicabs. But the Olympic games have begun. Yabao Road is now strangely quiet.

Only a few months ago many shopkeepers, restaurants and hotels were expecting these to be boom times as big-spending foreigners flocked in for the games. Today many businessmen in and around the capital are disgruntled. So too are other citizens who find that even some outdoor food markets have been closed as part of an Olympic spruce-up.

This should be a busy season for Yabao Road, as Russians arrive to make bulk orders of clothing for the winter and other cheap goods. But Chinese traders say the Russians, like other foreigners, have suffered from the tighter visa requirements introduced by China in the build-up to the games. They say police checkpoints ringing the city and restrictions on lorry traffic entering Beijing have made it much more difficult to bring in goods. One shipping-company manager says that demand from traders for commercial space in Yabao Road has fallen sharply.

Official predictions for foreign visitor numbers in August are vague. Figures ranging from 400,000 to 500,000 are commonly cited (in August 2007 there were 420,000 visits by foreigners). But for many months these estimates have hardly been revised, despite signs that there are far fewer arrivals from abroad than expected. In June visits to Beijing by foreigners (including citizens of Hong Kong, Macau and Taiwan) were down by nearly 20% compared with June 2007. Figures this week showed that in July they fell by more than 30% compared with last year, to 270,000, with Russian arrivals down by 47%.

Officials say one-fifth of rooms at the city's 120-odd designated Olympic hotels were unoccupied after the games started on August 8th (they finish on the 24th). But no figures have been published for the 700 others. Price-cutting at many hotels suggests there may be a glut of rooms. Some bars and restaurants say business is lacklustre too. The owner of one upmarket nightclub says he had been expecting a packed house "all night, every night up until dawn" during the games. But in fact business is much as usual.

At least the police are not rigorously enforcing a threatened ban on carousing after 2am. They have, however, cracked down on prostitution, depriving many of Beijing's seedier bars and night-shift taxi drivers of business. Olympic traffic controls and security measures, as well as the lure of sport on television, seem to be keeping people at home anyway.

Manufacturers are also suffering more than they had expected. To curb pollution during the games, the authorities have closed all construction sites in Beijing as well as dozens of factories and quarries in and around the city for two months. Others have been ordered to cut production. Some, such as the Beijing Eastern Chemical Works, are keeping workers occupied by getting them to repair machinery. But at the nearby plant of Beijing East Asia Aluminium Industry, a worker says that hundreds of employees are staying at home on basic pay. The factory has not been ordered to shut, she says, but has had to close because of transport problems caused by the games. Officials have given warning that many more factories could be closed if more drastic measures are needed to clear the (still smoggy) air.

Many economists say the disruptions are unlikely to have a lasting impact on economic growth in the city. Last year Beijing's output grew by 12.3%. In the first six months of 2008 it grew by 11% compared with the same period a year ago. Officials say this pace is likely to be maintained for the rest of the year, in line with a slight slowing of China's overall growth-rate. JP Morgan Chase, an investment bank, said in a recent research note that industrial and construction activity hit by the games should "rebound" after the Olympics. In the meantime, the games are not winning any medals from Beijing's businessmen.


WORLD
ASIA

The Beijing Olympics

Five-ring circus

Aug 14th 2008
From The Economist print edition

News from the Forbidden Citius, Altius, Fortius

Producers of the dazzling Olympic opening ceremony on August 8th acknowledged that an adorable nine-year-old girl in a red dress was **miming** her solo rather than singing, and that the actual singer had been removed at the last minute because of her round face and uneven teeth. They also revealed that the impressive 29-step progression of firework "footprints" that on television appeared to lead across Beijing to the stadium was a computer-generated graphic.

Population control

Despite ugly scenes in July when thousands of people queued for hours, pushed, shoved and tussled with police to buy the last available Olympic tickets, **many seats were vacant** during the first week of competition. When Michael Phelps, an American swimmer, won his third gold medal of the games on August 12th, hundreds of seats at the pool were empty. That day nearly half the venues were less than four-fifths full, and some two-thirds empty. The International Olympic Committee and the games' sponsors have asked Beijing to increase attendance by easing access to the tightly secured Olympic complex.

1962 avenged at last

India saw further proof of its rise as a global power when it won its **first individual gold medal** in Olympic history. Abhinav Bindra took the men's 10-metre air-rifle event. Bindra's victory came at the expense of Zhu Qinan of China, who took silver, a rare win for the world's second-most populous nation over its first. As a reward, Mr Bindra was accorded another rare honour: a lifetime rail pass. Air-conditioned, of course.

Weather? Or not?

Worried it might **rain** on the opening parade, games organisers launched 1,110 cloud-seeding missiles in the hours leading up to the big event. Fired from 21 sites surrounding the city, the missiles carried silver iodide to make it rain in those areas rather than over the ceremony in the Bird's Nest stadium.

Is it in the 1,500 metres?

"That's the decision made by the relevant authorities. I don't think it's going to be a big threat." *Wang Wei, of the Beijing Olympic Committee, on why an armoured personnel carrier was stationed outside the main Olympic media centre.*



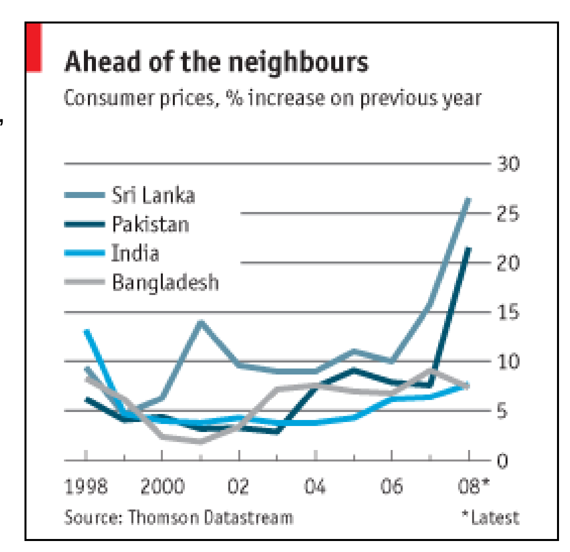
Sri Lanka

Not many pluses

Aug 14th 2008 | PANNALA
From The Economist print edition

A brutal military campaign threatens Sri Lanka's exporters

Get article background



AT A lingerie factory in Pannala, in Sri Lanka's Western Province, lines of women in red work-coats, red headscarves and face-masks are stitching knickers. These garments, bound for British high streets, represent one of Sri Lanka's strengths: an innovative garment industry, which accounts for 67% of total industrial output and the equivalent of 10% of GDP. The factory's owner, MAS Holdings, Sri Lanka's biggest garment-maker, employs 45,000 Sri Lankans, and had revenues of $700m last year.

Seen from here, Sri Lanka's big weakness—the 25-year war between the Liberation Tigers of Tamil Eelam (LTTE) and the government—might be in another country. It is waged mostly in the north and east, leaving the populous, well-off west largely unscathed. But this could change.

Under a concession known as "GSP Plus", awarded in 2005 to help Sri Lanka rebuild after the 2004 tsunami, Sri Lankan exporters enjoy preferential tariff treatment from the EU. As a result, the EU is Sri Lanka 's biggest export market, accounting for annual sales of around $1 billion; about half are covered by GSP Plus. But there is a problem with the rules of GSP Plus. Beneficiaries must comply with 27 international conventions, on environmental, labour and human rights standards. And on the last of these, Sri Lanka is struggling. The agreement expires at the end of 2008. Recent signs are that it will not be renewed.

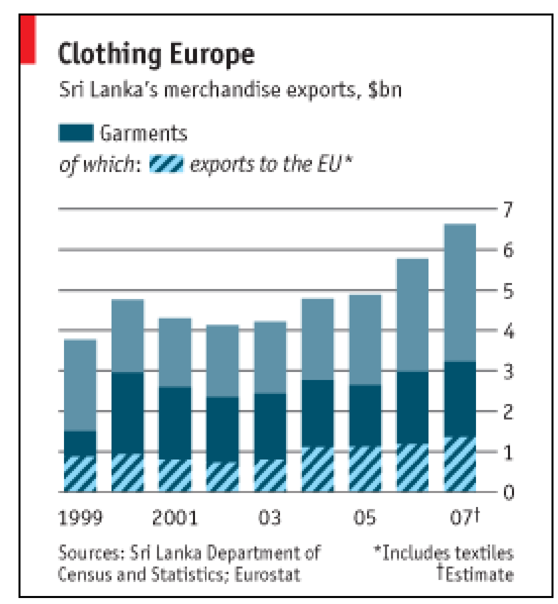
Since launching a fresh campaign against the LTTE in 2006, the government has been accused of complicity in the abduction or murder of hundreds of Tamil and Muslim men. It is at war with human-rights groups. It has refused to let the UN High Commissioner for Human Rights set up an office in Sri Lanka. A much weaker alternative, a group of "eminent persons" from India, France, America and other countries, was sent to observe Sri Lanka's own investigations into six high-profile abuses. But the group disbanded itself in April, citing a "lack of political will" to uncover the truth.

A senior EU official familiar with Sri Lanka thinks it currently looks unlikely GSP Plus will be renewed. At a minimum, he suggested, the government would have to make real progress on a case in which 17 aid workers employed by a French NGO were killed in 2006, and another in which five high-school students were executed, allegedly by security forces, also in 2006. If the EU renewed the agreement without such progress, it might be challenged at the World Trade Organisation—as happened to an EU trade sop to Pakistan in 2004.

According to an unpublished paper by economists at the University of Sussex, losing GSP Plus would lead to a 4% cut in Sri Lanka's garment exports. Overall, it would cost 2% of GDP. MAS expects GSP Plus to go. To offset the increased costs this would entail, the company is looking for ways to cut other costs, such as by buying fabric in East Asia, not Sri Lanka or India.

But this comes at a bad time for Sri Lanka and its garment-makers. Annual inflation is close to 30%. The rupee has appreciated against the dollar, further hurting exporters. By one estimate, economic growth—which was 7.6% in 2006—will be

4.3% this year. As elsewhere, inflation is being driven by high food and energy prices. But in Sri Lanka, 25-year average annual inflation is 12%. Monetary policy has been too loose, in part to finance the war. Including the cost of resettling refugees, the war eats up around 30% of the government's budget. Yet it insists that its military campaign, which most Sri Lankans support, has little effect on inflation, which they do not. If it loses GSP Plus, it will be even harder for the government to argue that the war has no economic downside.





WORLD
ASIA

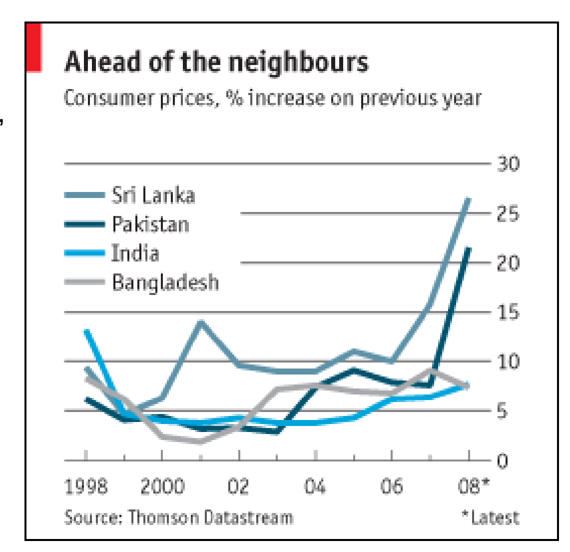
Sri Lanka

Not many pluses

Aug 14th 2008 | PANNALA
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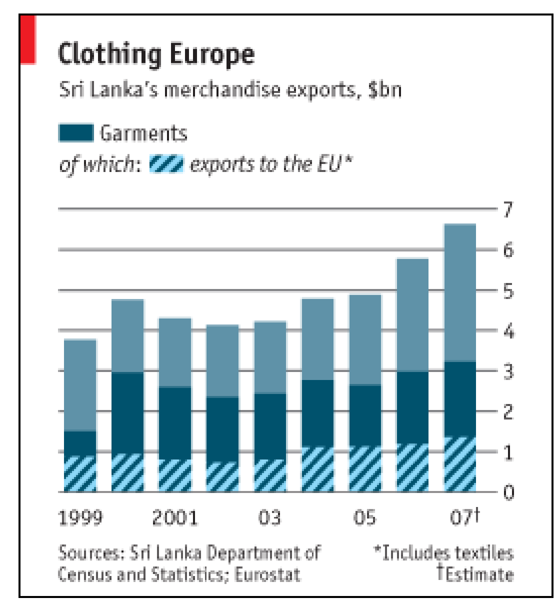
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Pakistan

Time's up, Mr Musharraf

Aug 14th 2008 | ISLAMABAD
From The Economist print edition

Enemies of Pakistan's president smell blood

RETIREMENT beckons for President Pervez Musharraf. On August 11th Pakistan's ruling coalition, led by the Pakistan People's Party (PPP), convened parliament in order to impeach the former dictator. By coincidence, it was his 65th birthday.

The PPP and its main ally, the Pakistan Muslim League (N), or PML (N), have drawn up a charge-sheet against Mr Musharraf. It remained under wraps; yet the government's leaders have accused the two-time army coupster of subverting the constitution. The PPP's leader, Asif Zardari, has also accused him of misusing American aid given to fight the war on terror. The government has promised to publish its charge-sheet and launch the impeachment within a few days—if Mr Musharraf does not resign first, as it hoped he would.

For further encouragement, Pakistan's four provincial assemblies resolved to vote on what amounts to a motion of no-confidence in Mr Musharraf. In Punjab, the base of his political ally, the Pakistan Muslim League (Q), or PML (Q), the motion passed by 321 votes to 25. Over half of Mr Musharraf's friends there, it transpired, were of the fair-weather type. In North-West Frontier Province, Mr Musharraf picked up four votes; 107 went against him. In Sindh, not one legislator voted for the former general. His "allies" there abstained. Baluchistan, a poor and rebellious province, seething with ill-will against Mr Musharraf, was yet to vote.

At least, this encouraged the government. To impeach the president, it needs two-thirds support in a joint vote of Pakistan's two-tier assembly. It is not entirely clear that it has this. Yet, after the performance of Mr Musharraf's allies in the provinces, it seemed that the extra votes required could be found. So, Mr Musharraf's best hope of survival might be to dissolve parliament—as he has empowered his office to do. He has made similar interventions before: for example, last November, when he declared an emergency in order to muscle through his re-election as president. But he had the support of the army then; it is unlikely he would have it now.

His other staunch ally, America, has also backed away. When the leaders of the two main parties, the PPP's Asif Zardari and the PML (N)'s Nawaz Sharif, declared their intention to impeach the president on August 7th, a spokesman for America's State Department called it an "internal matter". Mr Sharif has implied that America has asked him not to press charges against its old ally. Mr Zardari, to whom Mr Musharraf last year gave an amnesty from corruption charges, might live with this. But Mr Sharif, whom Mr Musharraf ousted as prime minister, imprisoned and then exiled, will give no such assurance.

To avoid being pursued by Pakistan's courts—which he has done much to wreck—Mr Musharraf might consider retiring outside Pakistan. Local rumour-mongers have proposed many possible destinations: Turkey, America, Saudi Arabia, Britain. But as *The Economist* went to press, Mr Musharraf, the bluff commando, still refused to quit. If his impeachment proceeds as promised, General Ashfaq Kayani, Pakistan's army chief, may ask him to revisit that thought: the army, it is said, would consider the impeachment of its former supremo to be undignified.

By uniting against a common foe, the PPP and PML (N) have restored an opportunistic friendship of their own. Traditional rivals, they entered into an alliance after routing Mr Musharraf's supporters in a general election in February. But cracks appeared in May, after the PPP failed to honour a promise to reinstate some 60 judges, sacked by Mr Musharraf during the emergency. In response, Mr Sharif withdrew the PML (N)'s nine ministers from the government, but not its support. As a mark of renewed co-operation, four of these ministers are to return to work. The other five will join them after the judges are restored—as both party leaders say they will be, once Mr Musharraf is gone.

Perhaps this will happen. But, given the parties' history of mutual back-stabbing, it may not. If Mr Musharraf is removed, the government will in theory have a month to elect a new president. But it would

first try to pare back his powers. This would entail constitutional change, requiring two-thirds support in both houses of parliament. The government does not have this; PML (Q) controls the upper house. This raises the prospect of a protracted squabble between the three main parties over how the presidency should be renovated, and who should then occupy it.

Outside Islamabad, twin disasters are unfolding. The economy is in a dire way: inflation is running at 25%, as investors flee. In the north-west, a failing campaign against Taliban insurgents is meanwhile screaming for leadership—which neither the army nor the government seems able to provide. Around 300 people are reported to have been killed there, in tribal feuding and insurgency, in the past week.

South Korea

Pardon me

Aug 14th 2008 | SEOUL
From The Economist print edition

The president forgives some tycoons

THE leaders of South Korea's conglomerates or *chaebols* have long acted as if they were above the law. Kim Seung-youn, chairman of Hanwha, an explosives, construction and insurance group, confessed last year to beating bar workers at a building site with the help of his own goons. He was retaliating after his son was hurt in a scuffle. After a few months in jail, Mr Kim was released on health grounds, and was soon back at his desk running Hanwha. This week, to mark the day South Korea celebrates liberation from Japanese colonialism, the president, Lee Myung-bak, pardoned him and 341,863 others.

They included Chung Mong-koo, the chairman of Hyundai, the world's sixth-largest carmaker. Last year Mr Chung was convicted of embezzling about $90m from his company, and sentenced to 300 hours of community service. Chey Tae-won, of SK Group, a telecommunications, oil-refining and construction *chaebol*, was convicted in 2003 of illegal share swaps designed to keep the most lucrative parts of the group in his family's control. Mr Chey did not serve any time in prison, but was given a suspended sentence. Now Mr Lee has pardoned him, too.

President Lee came to power earlier this year pledging to raise average national income per head to $40,000 a year and to achieve 7% annual economic growth. He has appealed to *chaebol* leaders to boost investment and jobs. But at his inauguration Mr Lee also promised to back “business leaders who are transparent and put in an honest day's work”. So the pardons for the three *chaebol* bosses look a bit odd. Many South Koreans see them as proof that the wealthy are held to different standards from those applied to ordinary citizens.

Mr Lee, a former chief executive of ten different Hyundai group units, has himself been haunted by allegations that his past personal business dealings were less than pristine, particularly with regard to his family's property sales and the failure of an investment firm he helped found. One of Mr Lee's prospective ministers and several presidential aides have had to resign after questions were raised over their ethics. The first cousin of the president's wife was arrested this month after receiving money from a man who wanted to clinch a parliamentary nomination from Mr Lee's ruling party. The president's approval rating hovers around 20%. Pardoning business bigwigs will not help it rise.

Iraq

The benefits and the curse of oil

Aug 14th 2008
From The Economist print edition

The country is awash with oil money but still lacks a proper plan

Illustration by Peter Schrank



IN THE second quarter of the year, an American military auditor recently reported, Iraq's oil production averaged over 2.4m barrels a day, the highest level since America invaded Iraq in 2003, and a marked improvement on last year's average of around 2m b/d (see chart). Rising output, along with the high (if now falling) price of oil, should pump up Iraq's oil revenues to almost $80 billion this year. That, in turn, has allowed the country's parliament to boost this year's budget from $48 billion to $70 billion in a supplementary spending bill approved earlier this month. As security improves, the government has a lot more cash to spend than it did a year ago. Will it make the best of it?



For one thing, revenue from oil should go up more sharply still. Iraq produced 3m b/d as recently as October 2001, despite the crippling UN-enforced sanctions at the time. Iraq's oil minister, Hussein al-Shahristani, has spoken of raising output to 6m b/d. In theory, that is possible. Iraq's proven reserves, of 115 billion barrels, are the world's third-largest after Saudi Arabia and Iran. Yet Iraq ranks just 13th in terms of production, suggesting there is plenty of scope to pump more. Russia, for example, produced almost 10m b/d last year from reserves of 80 billion barrels. Only 27 of the 80 or so fields that have been discovered in Iraq have ever been tapped.

What is more, there are probably new fields to be found. Thanks to almost 30 years of war, strife and sanctions, Iraq has never been thoroughly explored. Geologists point to hundreds of promising subterranean structures where no wells have been sunk. Indeed, only 2,300-odd wells have ever been drilled in Iraq, compared to 1m in Texas alone.

Best of all, Iraq's oil is cheap to extract. Most of it lies close to the surface in relatively porous reservoirs. Tariq Shafiq, a former executive at the state-owned Iraq National Oil Company (INOC), says that expanding Iraq's output from existing big fields should cost $1-3 a barrel, leaving over $100 per barrel in profit at present prices. "Geologically," says Sarah Haggas, of IHS, a research firm and consultancy, "Iraq is perfect for oil exploration."

Still beset by arguments

Politics, however, is another matter. Insurgents have made a habit of attacking the oil infrastructure; the recent rise in output is due chiefly to improved security. In particular, the United States has paid for a project to reduce sabotage to a pipeline that links the Kirkuk oilfield, one of the country's biggest, to the main outlets for exports—ports in the south and a pipeline north to Turkey. The Kirkuk-Baiji pipeline (see map) is now protected on either side by a ditch, a dirt barrier, a fence topped with razor wire, and three more rolls of razor wire on the ground. There are two guardhouses at every road crossing; the government has recruited local tribesmen suspected of mounting many past attacks to man them and conduct patrols. Oil has flowed freely since the construction of these defences began last summer. The American army says that, as a result, exports in the 11 months to May went up by 91m barrels, worth an extra $8.2 billion.



Iraq's government hopes to improve output by more conventional measures, too. It is negotiating contracts with the biggest Western oil firms, including Exxon Mobil, BP and Total, to refurbish five of the country's biggest oilfields. It hopes this will raise output by 500,000 b/d. Though Mr Shahristani said the deals would be signed "within weeks" in January, they have yet to materialise.

In any event, it is uncertain how effective these deals will be. David Kirsch of PFC Energy, a consultancy, argues that INOC would not have the capacity to transport all the extra oil even if it could be produced. There is some doubt about whether the contracts would last one or two years, calling the production target into question. And the oil giants would not station any staff in Iraq, as it is still too dangerous; they would send only equipment and advice.

Meanwhile, critics in Iraq and abroad have denounced the government for failing to assign the contracts by public tender. Suspicions abound that the authorities, under American pressure, will be too generous to the oil firms, though no terms have been published, so it is hard to tell. Four American senators have asked for an investigation. Dennis Kucinich, a congressman, has proposed a law to ban American oil firms from seeking contracts in Iraq.

Perhaps spurred by this fuss, Mr Shahristani said last month that Iraq would let 45 firms bid for another round of contracts, which he hopes to award next year. Details are scant but it seems these would last for as long as ten years; unlike the short-term ones, they would require participants to team up with an Iraqi partner.

Are foreigners stealing again?

The government says both types of contract will comply with the present oil law, which does not allow deals that confer ownership of Iraqi oil on foreigners. It has resorted to these arrangements only because a new oil law approved by the cabinet last year has run aground in parliament. Its critics say it would give foreign firms too much control over Iraqi fields, an incendiary claim in a country where the nationalisation of the oil industry in 1971 is still seen as a moment of triumph. They view the law's

“exploration and production contracts” as thinly veiled production-sharing agreements, whereby firms win the right to a fixed proportion of the output of fields they develop. Other critics say the government has modified it to give too much power to the regions.

But the leaders of Iraq’s autonomous Kurdish region disagree. They want as much control as possible over the oil industry in their area, for fear that neglectful or hostile bureaucrats in Baghdad may otherwise hold back their development. Though oil revenue from the fields INOC runs is meant to be distributed across Iraq in accordance with population, the Kurds want to benefit more directly from the development of new fields in their area and from future exploration. Specifically, they want the federal government to honour the 20-plus contracts their regional government has signed with foreign oil firms. But the government in Baghdad refuses. Instead, it has barred the firms involved from bidding for contracts in the rest of Iraq.

Foreign oil firms may still be wary of investing amid such political uncertainty. Yet huge sums are needed: oilmen say tens of billions of dollars are required to overhaul existing infrastructure and fields, and much more to expand output dramatically.

Thanks to oil, Iraq is not short of cash. But its oil ministry manages to spend only a small fraction of its investment budget every year. Iraqis complain that the brightest employees have long since gone; many of the remainder are corrupt and overworked, and the ministry is riven by political shenanigans. Workers at the South Oil Company, an INOC subsidiary that controls the majority of Iraq’s production, have been protesting against the proposed oil law. The government, in turn, has reassigned several prominent employees and split the firm in two—hardly a top priority for the industry. Until a comprehensive oil bill is signed, Iraq will continue to lose huge sums it would otherwise earn from the investment it so badly needs.

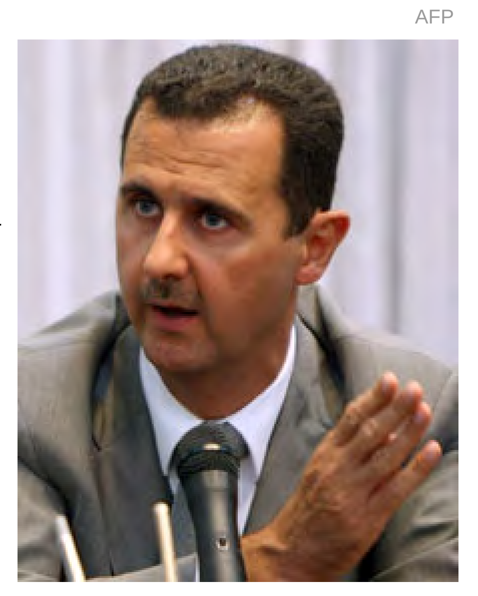
Syria

Still more murk than light

Aug 14th 2008 | CAIRO
From The Economist print edition

A recent assassination makes Syrian politics look as mysterious as ever

AFP



THOSE who speak do not know and those who know do not speak. That classic adage of how information flows in a dictatorship has always fitted Syria rather well. But the fog in the Syrian capital, Damascus, has rarely been thicker than now.

Take the mysterious death of a top general, Muhammad Suleiman, at a seaside resort earlier this month. Was he shot by a lone sniper from a passing yacht, as first alleged, or killed at closer range, perhaps even by a masked hit squad? Was he targeted because he had fallen out with Syria's president, Bashar Assad, or because he had angered Israel by funnelling Iranian and Syrian arms to Hizbullah, the Lebanese Shia guerrilla group with which the Israelis fought a messy war in 2006? Or was he killed in revenge for his role in other assassinations, such as the lorry-bomb killing of the Lebanese leader, Rafik Hariri, in 2005, or, contrarily, in the death of Hizbullah's elusive tactical mastermind, Imad Mughniyeh, whose car blew up last February inside a compound housing Syrian intelligence operatives?

Who was General Suleiman, anyway? Was the 49-year-old really the shadow of the regime, a behind-the-scenes operator whose powers were second only to President Assad's, as some allege? Certainly, he came from the same Alawite religious minority as the Assad family, and had been a close friend of Basil, Bashar's elder brother. Basil had been the anointed heir to the presidency seized in 1970 by their father, Hafez Assad, until he drove his Mercedes off the road in 1994. After Bashar Assad's accession in 2000, the general is said to have taken responsibility for several sensitive files: the supply of arms to Saddam Hussein's Iraq and later to Hizbullah; military relations with Syria's ally, Iran; and development of a mysterious, allegedly North Korean-designed nuclear facility on a remote stretch of the Euphrates river that Israeli aircraft destroyed last September.

The political and military murkiness in Syria covers larger strategic questions too. Unusually, Syria revealed earlier this year that it is engaged in secret talks with Israel. Mr Assad, who had been ostracised by fellow Arab and Western leaders for his suspected role in the Hariri killing, for meddling in other Lebanese matters and for sponsoring radical groups such as Hizbullah and the Palestinian Islamist movement, Hamas, has lately taken some less confrontational stances. Syria blessed the deal worked out in May to resolve a long-simmering constitutional crisis in Lebanon. This week it is hosting Lebanon's new president, Michel Suleiman (no relation to the slain general), promising to establish normal diplomatic ties with the smaller neighbour it has long dominated. As a result, Syria's relations with European governments have markedly thawed.

Yet on the day of General Suleiman's death Mr Assad was on a state visit to Iran, where his officials stressed the strength of the two countries' ties. Syria reasserted Iran's right to seek nuclear technology, which does not endear it to those, including America and its allies, who feel threatened by Iran. Meanwhile, Israel says that Syria has increased its arms flows to Hizbullah, including an alleged supply of anti-aircraft missiles. And even as it promises to turn a new page with Lebanon, Syria is putting on trial a group of dissidents whose main crime was to call publicly for normal relations with its smaller Arab neighbour. Perhaps their fate merely proves that one should not speak until one knows.

Israel

Temple temptations

Aug 14th 2008 | JERUSALEM
From The Economist print edition

The issue of Jerusalem's holiest site may again be dividing Jews

THE lead singer, with yarmulke, beard and guitar, appears with a sheep on the cover of the latest record by Lechatchila, a religious-rock group popular among Orthodox young Israelis. "Don't stare at me," the lyrics go. "The Temple is sure to be rebuilt right now. We've got to prepare, to believe, to make the redemption happen."

For two millennia, ever since the Temple in Jerusalem was destroyed by the Romans, Jews have continued to study, write and indeed sing about the intricate rituals of service and sacrifice, in the belief that one day the Messiah would come and the Temple would be rebuilt. Meanwhile, the faithful were forbidden even to walk on the Holy Mount, let alone worship there.

This suited the regime instituted on the Temple Mount by Moshe Dayan, Israel's then defence minister, after the 1967 war. He ruled that the mount, known to Muslims as the Haram al-Sharif (or Noble Sanctuary), where the golden Dome of the Rock has stood since the seventh century after Christ, would remain an exclusively Muslim place of worship, administered by the *Waqf,* or Muslim religious trust. Jews and Christians could visit but not worship there. Rabbis of all religious and political stripes agreed.

This arrangement broadly endured, between periodic bursts of violence. But it never allayed Arab fears that the Jews had designs on the mount. In 1984, the Israeli authorities arrested a group of fanatical Jewish settlers for plotting to fire rockets into the mosque. Yasser Arafat, the Palestinian leader, infuriated Bill Clinton (then America's president) and Israeli negotiators by repeatedly denying there ever was a Jewish temple on the site and rejecting proposals to share sovereignty over it. In September 2000, a walk on the mount by Israel's then opposition leader, Ariel Sharon, prompted bloody clashes which turned into a six-year Palestinian *intifada* (uprising).

Recently the rabbinical consensus has been fraying. Nationalist rabbis close to Jews who have settled on the Palestinian West Bank are permitting—even encouraging—their followers to visit the mount. Separately, the energetic and well-endowed Temple Institute in Jerusalem's old city has been diligently recreating ancient Temple vessels and priestly garments to be ready when needed. The institute runs guided tours of the mount and publishes prayer books in which former Jewish glories are graphically depicted; its director reassures readers of its website that there is no call "for the launching of missiles or the exploding of the mosque". But the Temple is "not just something historic, stored in a memory chest". For nationalist-Orthodox children, it is increasingly a reality.

The larger, ultra-Orthodox community remains ostensibly unaffected. Its rabbis still forbid even walking on the mount and are content to wait for the Messiah without spurring him on. But between the two groups there is a theological overlap that translates into a tough brand of politics. The ultra-Orthodox Shas party, a pivotal part of the government's coalition, has given notice that it will walk out if there is any negotiation over Jerusalem. Sure enough, in leaked draft proposals put by Israel's prime minister, Ehud Olmert, to the Palestinian president, Mahmoud Abbas, the question of Jerusalem is postponed indefinitely. Or until the Messiah comes?

Uganda

Drums of war across the borders

Aug 14th 2008 | BANGUI
From The Economist print edition

Since peace talks with Uganda's rebels collapsed, some say war must resume



IN MARCH, after nearly two years of on-and-off peace talks, negotiators for Uganda's Lord's Resistance Army (LRA) announced that their leader, Joseph Kony, an elusive self-styled mystic, was at last ready to emerge from the bush and sign a deal to end one of Africa's longest wars. For two decades, the conflict had brought misery to a region bordering several countries (see map), left tens of thousands of people in northern Uganda dead, and displaced nearly 2m others. Earlier this year, the date for signing a peace deal approached. But at the last minute Mr Kony called off the event and sacked his negotiators. Now there is a danger the war may resume.

It is yet another humiliating setback for those who have advocated talking to a man wanted for war crimes by the International Criminal Court at The Hague. So those who have always argued for taking a tougher stand against the LRA, such as Uganda's senior soldiers, have the upper hand again. At the end of June, citing the lack of progress towards a peace deal, the leaders of Uganda, Congo and the autonomous region of south Sudan agreed for the first time to co-ordinate military efforts to stamp out the rebellion once and for all.

But the prospect of a new offensive may well set the LRA on the war path again, pushing the rebels farther afield into a new redoubt in the Central African Republic (CAR), the region's weakest link. Very poor and with a feeble army, the CAR can least afford to have the LRA roaming across its wastelands. Since independence in 1960, the CAR's eastern corner has been criss-crossed by just about anyone with a gun, including mercenaries plotting coups in Chad, Congolese rebels, and units of Sudan's *janjaweed* militia who have terrified the disaffected people of Darfur.

In February and March, the CAR had a taste of the LRA's barbarism. As Mr Kony's lieutenants were negotiating a peace deal that was later aborted, the rebels spent ten days raiding villages around Obo, near the CAR's border with Sudan, looting homes and abducting some 150 people. “They said they were there for the girls and would come back,” says Jeanette, a 28-year-old who says she was kidnapped, gang-raped and then released by the rebels. “And when they did come back, if there was any resistance, they said it would be worse.”

But for all the fighting words of the leaders of Uganda and other governments in the area, it is doubtful whether they can effectively resume an all-out war against the LRA. The ceasefire that accompanied the talks with the rebels when they started nearly two years ago has more or less held in northern Uganda;

life there has been returning to normal. Local Ugandans, mostly Acholis from whom the LRA is drawn, do not want to jeopardise that. Moreover, the south Sudanese, whose main trade route to Uganda's capital, Kampala, and beyond passes through the affected area, oppose a renewal of war. And Congo, which would have to undertake the daunting task of driving the LRA out of its jungle hideouts in the country's north-east, in such places as the Garamba National Park, has one of the least competent armies in the world.

The military hard men, especially in Uganda, say that only the threat of force will drag the LRA back to the negotiating table. They have been encouraged by the news that Mr Kony has at least named a new negotiating team. "As far as we're concerned," says Congo's defence minister, Chikez Diemu, "I do think that when you want peace you prepare for war."

Zimbabwe

Let’s talk again, maybe

Aug 14th 2008 | JOHANNESBURG
From The Economist print edition

Negotiations to resolve the country’s crisis are proving as sticky as expected

AFTER shaking hands in front of the cameras on July 21st, President Robert Mugabe and Zimbabwe’s main opposition leader, Morgan Tsvangirai, seem barely closer to resolving their differences than they were three weeks ago, when discussions over power-sharing began. Together with Arthur Mutambara, who leads a small opposition group that split off from Mr Tsvangirai’s Movement for Democratic Change (MDC), they have been locked in secretive negotiations under the eye of South Africa’s president, Thabo Mbeki, mandated by the region’s leaders to mediate such talks. But so far Mr Tsvangirai has refused to accept a deal that could leave Mr Mugabe still wielding most of the power.

Mr Mbeki, often accused of being too soft on Mr Mugabe, is particularly keen to clinch a deal before the 14-country Southern African Development Community (SADC), the region’s main club, meets in Johannesburg on August 16th. But as *The Economist* went to press, Mr Mbeki looked unlikely to succeed in time.

It was Mr Mutambara who briefly emerged as a wild card, with officials from Mr Mugabe’s ZANU-PF saying he had struck a separate deal. The ten seats his faction has in the 210-member Parliament could hold the balance of power between Mr Mugabe’s lot and Mr Tsvangirai’s. But he denied that a deal had been done; early in the negotiations, he said there could be no deal without Mr Tsvangirai.

Messrs Mugabe and Tsvangirai now at least seem to agree that power-sharing is unavoidable. Yet they remain unable to agree on who should ultimately hold the reins. Mr Tsvangirai, whose MDC is acknowledged by both sides to have won the most seats in a general election on March 29th, refuses to sign a deal that fails to give his party real authority in a transitional government. Moreover, if Mr Mugabe retained executive power as president, the MDC would almost certainly be neutered and outmanoeuvred in a so-called unity government. The MDC would let Mr Mugabe have a ceremonial presidency, with Mr Tsvangirai as executive prime minister.

So far, Mr Tsvangirai is believed to have been offered a post as a relatively toothless prime minister. He would supervise the cabinet and sit on the Joint Operations Command, which includes the top security chiefs now thought to be running the country. But the 84-year-old Mr Mugabe, pointing to his own one-candidate “victory” in the presidential run-off at the end of June, which Mr Tsvangirai boycotted after winning the first round, shows no intention of retiring to cut ceremonial ribbons. He has been insisting that he remain as a strong president, with a main say in key appointments and decisions. Cabinet jobs would be shared between his party and the MDC. This kind of arrangement would provide for an amnesty for human-rights abusers, including Mr Mugabe.

So a big gap remains. Both leaders are under pressure to compromise. Mr Mugabe still has the guns: MDC people in Zimbabwe are still being harassed and beaten. But the economy is melting down even faster than before. And everyone knows that an economic rescue package will not be available if Mr Mugabe and his friends are still running the show. Expect negotiations to resume, sooner or later.

Mauritania

A bad example?

Aug 14th 2008 | NOUAKCHOTT
From The Economist print edition

Africa's reaction to the continent's latest coup is being carefully watched

AFP



AFTER a decent election last year, Mauritania was held up as a fine new democracy for Africa. Alas, no more. The latest military putsch, on August 6th, put failed and successful coups in the last three decades into double figures and prompted a flood of international criticism, including suspension of aid and of membership of the African Union (AU). But will such remonstrations make a jot of difference?

The hopeful part of the story goes back to 2005, when soldiers including Colonel Muhammad Ould Abdelaziz overthrew Maaouya Ould Taya, a nasty dictator who had been in power for two decades. For once, the soldiers kept their promise to organise fair elections. But Colonel Abdelaziz stayed close to the centre of power, first by persuading Sidi Muhammad Ould Cheikh Abdallahi to compete in the presidential election of 2007, which he won, and then by serving as the head of his presidential guard.

The election looked fair but the soldiers never went away; the transition to democracy was not as clean as it was presented as being. Colonel Abdelaziz became a general and last week regained power after Mr Abdallahi tried to sack him.

Foreign governments, which supported Mr Abdallahi's government as a bulwark of stability against the perceived threat of Islamist extremists in the Sahel, the swathe of Africa just to the south of the Sahara desert, reacted angrily. America and France, the former colonial power, immediately froze non-humanitarian aid.

But the Arab League, few of whose 22 members are democracies, was more accommodating. Its envoy, Ahmed ben Hilli, annoyed friends of the ousted president by suggesting that he had been reassured by General Abdelaziz's promise to hold new elections in due course. Algeria, Libya and Tunisia continued to tut-tut.

The AU's response, however, has been more nuanced. Its suspension of Mauritania was a move that automatically follows a coup but the AU's envoy, Lamamra Ramtane, sounded conciliatory. He told General Abdelaziz that he had come to Mauritania to help everybody find a solution. Nonetheless, he still made a veiled threat. Mauritania, he said, must not fall into a "vicious circle" that could force other governments to take "measures with consequences that would anger" those who had just taken power.

Despite a reputation for dithering that has worsened during the crises in Darfur and Zimbabwe, the AU has occasionally stood up decisively to coup-makers. In Lesotho in 1998 and in the Comoro Islands this year, it backed military intervention to restore democracy. AU sanctions helped reverse a coup in Togo in 2005. These were all minor countries, like Mauritania, where AU action could prove effective. South Africa and Nigeria played the biggest roles in those interventions—and have been the rudest about this latest coup.

So could sanctions and even military intervention follow? Maybe, if backed by foreign countries. But threats may make Mr Abdelaziz dig in his heels. He has promised fresh elections, but has pointedly refused to say whether he would withdraw from public life afterwards. Whether or not governments in Africa or elsewhere manage to prod or force Mauritania back towards electoral democracy, its army looks likely to go on running the show, in civilian garb or behind the scenes.

The euro-area economy

That shrinking feeling

Aug 14th 2008
From The Economist print edition

The credit crunch started in America, but Europe may yet prove the bigger victim. A first article looks at the euro area, a second (see article) at eastern Europe

Illustration by Peter Schrank



EUROPEANS might be forgiven for feeling bruised. The housing bust across the Atlantic was the trigger for the credit crunch, so justice demands that America suffer most from the fallout. But America has not so far followed the script, weathering the storms better than it expected. Its GDP suffered a tiny decline at the end of 2007, but it grew at an annualised rate of around 2% in the second quarter of 2008.

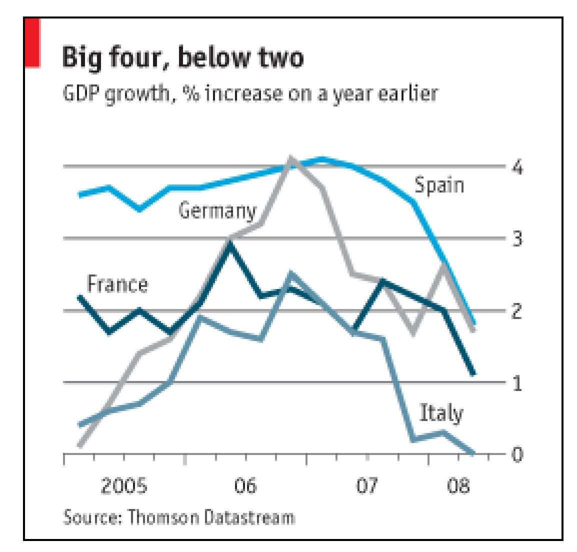
Europe is struggling to stay above water. Figures released on August 14th showed that the euro-area economy shrank at an annualised rate of 0.8% in the second quarter, the first such reverse since 2001. Nor are things likely to improve soon. A closely watched survey of purchasing managers in manufacturing and services slumped in July to its lowest level since 2001. Business confidence has turned down sharply in all of the three biggest economies in the euro area: Germany, France and Italy.

Indeed, in the second quarter GDP fell in all three countries, paring their annual growth rates (see chart). That Italy slipped is no surprise; even in brighter times for the world economy, it has struggled to maintain its growth. Meanwhile Spain's GDP has predictably stuttered as it endures a painful shock from its burst housing bubble. More alarming is the step back by France and Germany, which seemed sturdier than their southern neighbours.

In truth, the 2.0% annualised fall in German GDP in the second quarter makes its economy seem in worse shape than it is. A warm winter allowed more construction work than usual, spurring an aberrantly large rise in first-quarter GDP. The second-quarter decline is partly a payback. Yet there are worrying signs that the export motor that drives the German economy is sputtering. Orders for German engineering goods fell in June by 5% from a year ago, according to VDMA, a Frankfurt-based industry group. Foreign orders fell by 7%.

Thomas Mayer, an economist at Deutsche Bank, detects feelings of dismay in Germany at the economy's deterioration. After all, this was one of the few rich countries that skipped the global house-price boom. And unlike America, Germany is a supplier of global credit: its current-account surplus was a hefty 7.7% of GDP last year, according to the OECD. Mr Mayer thinks

there is a belief in Germany that "we didn't do all those bad things, so it's not fair that we are suffering". What is missing, he says, is any recognition that Germans profited from the credit-fuelled global boom, that "they were part of the game" as suppliers if not as consumers.



The rest of Europe was hardly immune from housing mania. House-price rises in Spain, Ireland and France during the boom years outstripped even America's. Ireland's housing bust may yet prove to be the most dramatic of all. Its GDP, which grew by 6% in 2007, is likely to shrink this year, according to the Economic and Social Research Institute, a Dublin-based think-tank. Ireland is too small for its economic troubles to pull down other countries much but Spain's economy has enough heft to inflict collateral damage (see box). Spain accounts for one-eighth of euro-area GDP but until recently was generating a much larger share of consumer spending and new jobs. Now the Spanish consumer is in retreat—retail sales fell by almost 8% in the year to June—and unemployment is rising.

The Spanish collapse has hurt firms in other euro-area countries. German and Italian exports to Spain have slowed sharply since last year, according to Julian Callow at Barclays Capital. French exports to Spain are now falling. Prospects for sales outside the euro area have darkened too. America's economy is doing well partly because it is sucking in fewer imports. Britain, the euro-area's other main export market, is on the brink of recession.

Hopes that spending by consumers in the thriftier parts of Europe would make up for lost exports have been dashed. In less troubled times, the marked acceleration in wages and salaries in the first quarter would soon push up spending. But because of sharp increases in food and fuel prices, fatter wage packets have barely kept up with inflation, which is now 4%.

Nor has thrift yielded much reward. When the economy was strong, most consumers were cautious about saving less and spending more (the euro-area saving rate has barely budged in the past three years). Now, when fears of jobs losses are rife, they are even less inclined to splash out. Retail sales across the region fell by 3.1% in the year to June. Even if there were a desire to borrow to finance spending, banks might be unwilling to meet it. Loan growth is wilting and a survey by the European Central Bank (ECB) suggests that lending conditions are becoming stricter.

No wonder business confidence is flagging and companies are pulling in their horns. Until recently, capital spending was one of the main drivers of economic growth. Firms were keen to invest on the back of healthy profits, solid foreign demand and hopes of a pick-up in consumer spending. Despite the credit crunch, banks seemed content to offer loans to companies for buildings and equipment, even as they recoiled from lending to households. But now loans to companies are slowing as well—a sign that firms are cutting back. Stronger wage growth and high commodity prices have squeezed profits, and export order books are suddenly thinner.

The economy's downward lurch puts the ECB in an awkward spot. It raised its main interest rate to 4.25% on July 3rd to show that it was serious about controlling inflation, which is well above its target ceiling of 2%. The rate-setters' fear was that inflation would persist if firms and households used today's rate as a benchmark for future wages and prices. They are right to worry. In Italy and Spain, wage growth is picking up even as unemployment rises, because of contract clauses allowing workers to be compensated for higher-than-expected inflation.

The good news is that the drop in oil prices may mean that euro-area inflation has peaked. But it will start to fall back only towards the end of the year. The ECB will be reluctant to cut interest rates until it is sure that the inflation danger has passed. By then, the euro-area economy may already be in recession. Mr Mayer reckons that the ECB will attempt to revive it by cutting interest rates to 3.25% next year. But until then, it is hard to see what else might lift growth. Many Europeans will feel that they deserved better.

Spain's bust

Vacant lot

Aug 14th 2008 | MADRID
From The Economist print edition

The euro area's erstwhile star pulls down the whole region

AFP



HALF-BUILT, unoccupied houses have become monuments to Spain's economic woes. Seseña, a development near Madrid (pictured) has become notorious. A big property group, Martinsa-Fadesa, went bust last month. Thousands of buyers now fear they may never see their properties finished or, worse, not get their money back.

Mediterranean properties are the worst affected. They fell in price by over 6% in the year to July, against 3.9% for the whole country, says a property valuer, Tinsa. Reverberations from falling coastal property and collapsing developers are being felt widely. The world's second-biggest tourist destination attracts buyers from around Europe. They want not just holiday and retirement homes but a nice profit when they sell. Those who thought they could not lose in a market that was seeing annual increases of up to 20% are getting their fingers burnt.

They are not the only ones blaming Spain for their pain. Vodafone, the world's biggest mobile-telephone operator, recently pointed a finger at Spain when it issued a 2008 profit warning. After more than a decade of buoyant growth in which Spain became fully integrated in the global economy, the domestic slowdown is sending ripples beyond the country's coastlines.

Spain's traditional summer holiday has also been disrupted. The normally languid month of August was interrupted this week when the Socialist prime minister, José Luis Rodríguez Zapatero, summoned an emergency cabinet meeting to discuss ways of tackling the economic downturn. It came as unemployment reached 10.4%, inflation hit a 15-year high of 5.3% and quarterly GDP growth stumbled to just above zero. Yet there is not much the government can do; even its fiscal room for manoeuvre is limited. Pedro Solbes, the finance minister, said ruefully just before the holidays that "there are no magic measures."

Spain's problem is not that it is suffering more than other European countries, but that it was doing so much better than them before. Bloated by cheap credit and a property bubble, it became an easy place to make money. Companies like Vodafone that depended on it for growth are no longer getting what they expected. Nor are foreigners buying Mediterranean property. Nor, indeed, are Spaniards themselves.

East European economies

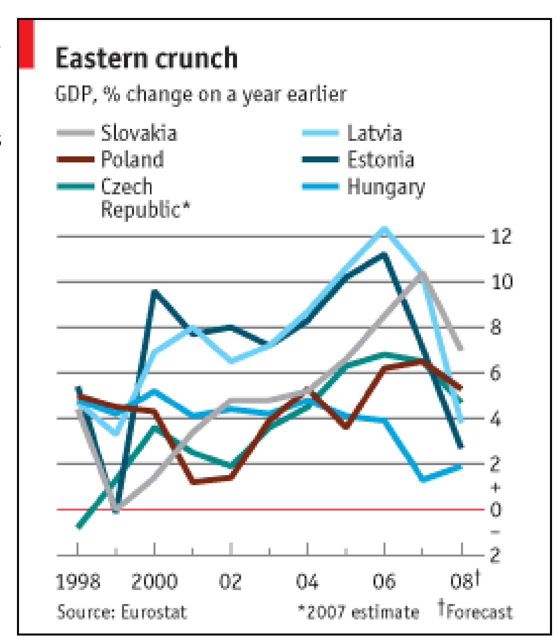
The party is nearly over

Aug 14th 2008
From The Economist print edition

After a good run, Eastern Europe faces an economic slowdown

IT HAS gone on splendidly for years, and the party isn't quite finished yet. For a decade or more eastern Europe has benefited from exceptional (and mostly unforeseen) good fortune. Economic and political stability, including for ten countries membership of the European Union, has boosted investors' confidence and cut borrowing costs. A big pool of cheap and diligent workers, along with the unleashing of entrepreneurial talents, has produced thriving new private businesses. In most countries, growth rates have been stellar (see chart).

Inevitably, it could not last. Wage costs are creeping up. Labour shortages are biting. Out-of-date infrastructure, such as Poland's notorious roads, is clogging trade. In several countries inflation is rising. And world markets, both for raising capital and for exporting, are looking tougher. In the face of all this, growth this year has been surprisingly strong. That is partly because the euro-area slowdown has only just started; partly because domestic demand has been rising; and partly because intra-east European trade has started to make up for softer exports westwards.



The big exceptions are the Baltic countries of Estonia and Latvia, home to colossal current-account deficits and breakneck growth in recent years. Now their bubbles have popped. In Latvia, for example, retail sales fell in June by 8.3% on a year earlier; industrial production is down by 6.4%. The construction industry has imploded. Inflation remains high at a whopping 17%. For a country with a pegged currency, that is scary. Yet the gloomiest predictions have so far proved unfounded. For example, Latvia has not been forced to devalue. The foreign banks, mainly Swedish, that own most of the financial system seem largely untouched by the credit crunch elsewhere in the world. And there is no sign of the contagion spreading from the troubled (but tiny) economies of the Baltic to the rest of the region.

In the biggest economy, Poland, things look better. Growth in the first quarter of 2008 was a sprightly 6.1% on a year earlier. Many Poles who left to work in Britain and Ireland are coming home, tempted by higher wages. Unemployment, which was 20% in 2003, has all but vanished in most parts of the country. But growth is now likely to slow, particularly if interest rates keep rising: they were 4% in 2007 and are 6% now, with another rise likely. That will strengthen the zloty further; it has risen against the euro. That may be a reason why Poles are returning from Britain, but it hurts Polish exporters.

Critics say the government should now do more to reform public finances, especially pensions, and get big infrastructure projects going, before a contraction in the labour force kicks in during the next decade. That would also improve the country's chances of joining the euro, which it now seems unlikely to do before 2013. So far, Slovenia has adopted the single currency and Slovakia will do so next year. No other country looks close.

The biggest worry is Hungary, which is the country most dependent on the continuing confidence of the capital markets. A shaky government has done surprisingly well in restoring macroeconomic stability after the near-disastrous spending and borrowing splurge in the early years of this decade. The budget deficit reached a yawning 9.4% of GDP in 2006; Neil Shearing of Capital Economics, a consultancy, reckons it may be down to as little as 3.5% by the end of 2008.

This has come at a heavy price, both in the government's rising unpopularity and in a near economic

standstill last year. The economy has picked up a bit since then, but inflation remains troubling at over 6%. The question is whether the government has the stomach for another round of fiscal tightening. Public spending is still over 50% of GDP, the highest in the region. A further worry is the looming slowdown in the richer half of the continent. The Hungarian economy depends heavily on exports to western Europe, which account for nearly 40% of GDP.

Despite the EU's worries about corruption and organised crime in its newest (and poorest) members, Romania and Bulgaria, their economies have been growing fast at around 7-8% a year. They are now leading candidates for a hard landing. A property bubble in Bulgaria seems to be on the verge of bursting, though this has still to filter through to the rest of the economy. Yet for now, few seem worried. Having dodged sanctions from Brussels (not fully in the case of Bulgaria), politicians in the Balkans seem to think that defying the laws of economic gravity is a cinch.

Denmark, immigration and the EU

Hoist by its own policy

Aug 14th 2008 | COPENHAGEN
From The Economist print edition

Denmark defers its plans to drop its opt-outs from European Union policies

NOTHING characterises Anders Fogh Rasmussen more than his knack of devising and delivering intricate stratagems. His blueprints for winning elections, retaining power and pulling off improbable compromises are the stuff of Danish political lore. Yet the prime minister's latest game plan has come unstuck. It was designed to serve a dual purpose: to bolster Denmark's standing as a European Union country by ditching its inconvenient opt-outs from EU treaties, and to enhance his own candidacy for a top Brussels job.

Mr Fogh Rasmussen has spent years cajoling Danes to drop their doubts over joining the euro and to accept deeper EU co-operation on defence and judicial matters. His strategy appeared to be working. Opinion polls in recent months have suggested that Danes are ready to adopt the euro, to fight under an EU flag and maybe cosy up on judicial affairs too. A referendum to scrap at least one of these opt-outs was pencilled in for the autumn—until Irish voters cast a spanner in the works by rejecting the Lisbon treaty in June.

Mr Fogh Rasmussen waited until this month to postpone the referendum indefinitely. "The situation is so unclear after the Irish vote that a Danish referendum is no longer relevant," he admitted on August 7th. Yet some blame the cancellation not on the Irish but on revelations through the summer of deep conflicts between Danish immigration practices and the EU's rules on free movement of labour. Indeed, Marianne Vestager, leader of the opposition Social Liberals, condemned the postponement of the EU referendum as a ruse to deflect attention from the question of whether Danes seeking to bring their foreign spouses to Denmark had been deliberately misled by the authorities.

A mishmash of regulations imposed by Mr Fogh Rasmussen since 2002 has slashed the inflow of non-Danish spouses. Few mixed-marriage couples satisfy the strict thresholds for age, wealth and cultural affinity. So several thousand have set up home in neighbouring Sweden instead, many of them commuting across the Oresund bridge to work in Copenhagen.

Many of these couples, such as Loke Busch and his Chinese wife, Xiaofei, were aghast when it emerged that their two-year exile in Sweden had been unnecessary. EU rules on labour movement mean that Mr Busch needed only to take a Swedish job for a few weeks to secure a Danish residence permit for his wife. Yet, despite some 40 meetings with the Danish immigration authorities, Mr Busch (and thousands like him) were in the dark about this loophole until it was revealed by *Berlingske Tidende*, a Danish newspaper.

Mr Busch and his wife might win compensation for the inconvenience they have suffered. But unfortunately for them and others, Danish public opinion remains solidly in favour of tight immigration controls. Indeed, fear of "opening the floodgates" to uncontrolled immigration may put Danish rapprochement with the EU off the agenda, whatever happens to the Lisbon treaty. At least until the Danes sort out their tangled immigration policy.

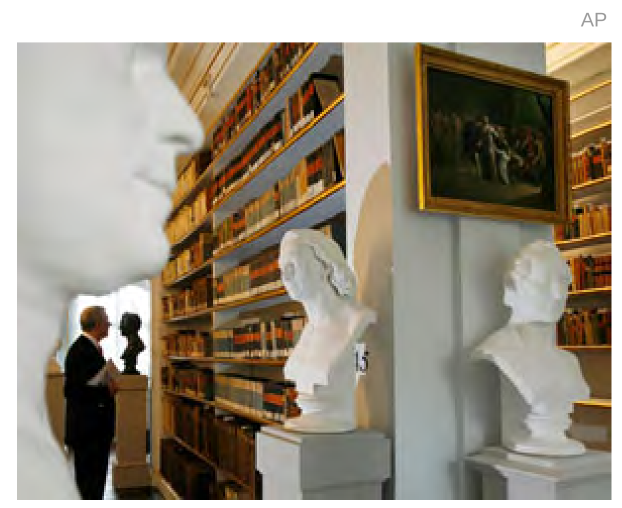
Weimar

Up from the ashes

Aug 14th 2008 | WEIMAR
From The Economist print edition

Goethe's city bounces back from fire and history

AP



Anna Amalia's restored Baroque jewel

WHEN the great and the good eat dinner in Weimar's Baroque Stadtschloss on August 28th, they will be celebrating rather more than just Goethe's birthday. The added spice is some €90m ($134m) of fresh finance, split 50/50 between the state government of Thuringia and the federal government, to step up awareness of Weimar's place in German culture and history.

This small city of 65,000 inhabitants is not only the cradle of German classicism but also the birthplace of the Bauhaus movement and of the ill-fated Weimar Republic in 1919, as well as the site of the Nazi party's first congress after its foundation. A mere 10km (six miles) away is Buchenwald, one of Hitler's worst concentration camps. "All the threads of our history run through this place," says Stefan Wolf, the mayor, a West Berliner who came to Weimar almost by accident in 2001. A "master plan" unveiled last month includes a new Bauhaus museum, which will consume nearly a third of the new money. It will also turn the somewhat neglected Stadtschloss into a new gateway for visitors.

There is a lot in Weimar to be ashamed of as well as to be proud about. For example, in 1925 Weimar's conservatives ejected the Bauhaus group led by Walter Gropius, who moved to Dessau. And the Marstall (cavalry stable) beside the Stadtschloss was used by the Gestapo, and later by the early East German regime, to hold and interrogate prisoners. The temporary buildings there were flattened in 1997 and then displayed as a work of art called "crushed history". "Our aim is to heighten awareness rather than let you relax," says Hellmut Seemann, president of the Klassik Stiftung Weimar, which is handling the master plan. But why is it happening now, nearly 20 years after the Berlin Wall came down and the customary pall of lignite-induced smog lifted from Weimar?

First, there was a growing awareness that not enough had been done to draw the threads of Weimar's history together. Second, the instant help offered after a catastrophic fire in 2004 badly damaged the Anna Amalia library, a Baroque jewel of the city, showed what could be done. And third, a local member of the federal parliament pulled some strings in Berlin and the money was suddenly available.

The historical threads may not be obvious, but here are some. After the chaos of the French Revolution, German classicism—above all, the plays of Goethe and Schiller—put man back at the centre of his universe and offered a new enlightened approach to living. So did the Bauhaus after the trauma of the first world war. Explaining what came later, the years of the Weimar Republic and then of the Nazis, is harder, but it cannot be dismissed as "just an accident", says Mr Seemann.

Weimar already attracts 3.5m tourists a year. But they tend mostly to focus on only one or two of the city’s artistic and historical attributes, not the entire place. Moreover, boosting tourism is not the only goal. Weimar has a lively Bauhaus University offering studies in architecture, a film school and other creative arts. The master plan is as much about encouraging the next anthropocentric wave in Weimar as about showcasing its glorious past.

That makes the debate over where to put the new museum an acute one. Should it be in the central Theaterplatz, to pull in the tourists? Or near the university, to inspire the next generation? Or, as a political statement, in the Gauforum, a daunting square that was once home to the local Nazi administration? A decision should be reached before the end of the year, after which the world’s architects will be invited to compete for the project. With luck they will produce something truly 21st century, hopes Mr Seemann.

Correction: Turkey

Aug 14th 2008
From The Economist print edition

In last week's story on Turkey ("After the storm", August 9th), we said the government had spent $120 billion fighting the armed Kurdish PKK separatists since 1984. The correct amount is $300 billion. This change was made online.



Inflation

Back to the badlands

Aug 14th 2008
From The Economist print edition

As long as prices surge the Bank of England cannot cut interest rates. That will not help a floundering government

Illustration by David Simonds



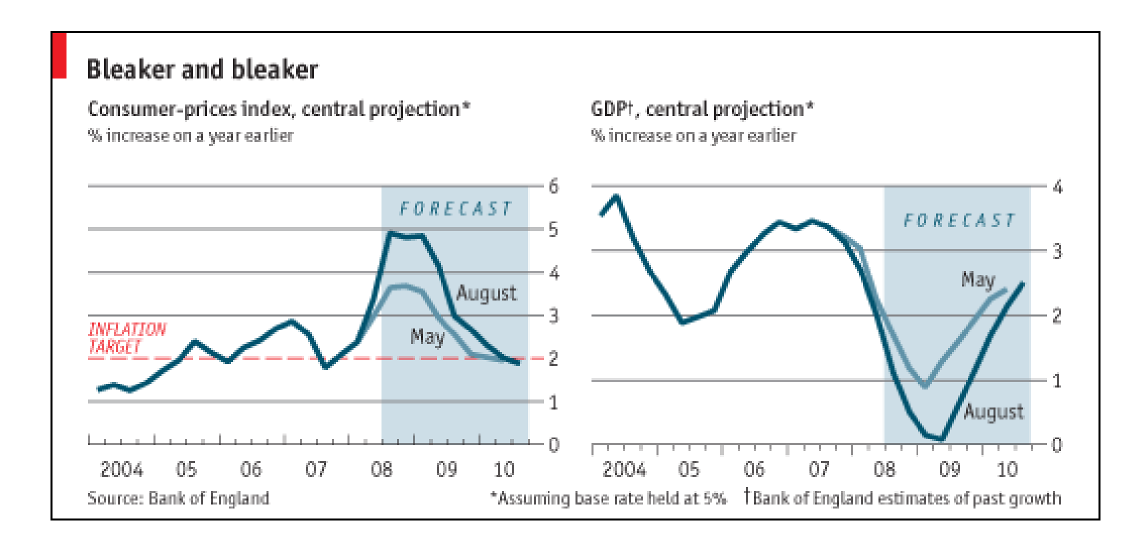
OVER the past few months the economy has developed a disquieting tendency to outgloom the gloomiest prediction. The housing market in particular has fared much worse than expected as house prices, turnover and residential investment have all tumbled. That is one big reason why economic activity is turning down sharply, trumping earlier forecasts of a moderate slowdown and pushing up the jobless count. But above all the upsurge in inflation has proved far more extreme than was once projected.

The Bank of England has the task of keeping the annual rate of inflation, measured by the consumer-prices index (CPI), at 2%. As recently as March it appeared to be on top of the job: inflation, at 2.5%, was only a bit higher than the official target. But by May inflation had reached 3.3% and it vaulted to 4.4% in July. The 0.6 percentage-point rise since June, when inflation was 3.8%, was the biggest since the series started in 1997.

Indeed, the inflation figures published on August 12th beat all manner of recent records. The longer established and more broadly based retail-prices index (RPI) went up by 5.0% in the 12 months to July, the fastest since 1991. Much of the surge came from higher food prices, which on the RPI measure rose by 12.2% in the year to July, the highest since 1980, and up from 9.7% in June. But prices are rising faster across the board: a measure of “core” CPI inflation, which excludes energy and food, the two main villains of the inflationary shock, increased more than the City had expected, from 1.6% in June to 1.9% in July.

The recent fall in oil prices offers a glimmer of hope, for it is starting to ease the intense inflationary pressures still working their way down the supply chain to retailers. The prices that manufacturers pay for their materials and fuel fell by 0.6% in July, although that left them still an astonishing 30.1% higher than a year earlier. But it will take time for this relief to be felt in the shops. Manufacturers’ prices on domestic sales increased by 10.2% in the 12 months to July, the most since early 1982.

The immediate prospect for consumers is grimmer than ever, according to new forecasts from the Bank of England in its quarterly *Inflation Report*. Assuming that the base rate remains at 5%, CPI inflation will peak at around 5% in the third quarter of this year and stay close to that worryingly high rate until early 2009 (see chart). The main projection is uncomfortably above the bank’s forecast in May.



Adding to the gloom, the Bank of England has become markedly more pessimistic about the prospects for economic activity. In May its central projection showed annual GDP growth slowing to a low of 0.9% in the first quarter of 2009. Now it portrays virtually no growth at all in the year to spring 2009 despite a boost from exports, as consumer spending falters and business and residential investment falls.

Presenting the report on August 13th, Mervyn King, the central bank's governor, gave warning that "the next year will be a difficult one, with inflation high and output broadly flat". The economy, he said, was undergoing a "painful adjustment" to the "unique combination" of the credit crisis and the shock of higher energy and food prices. In effect, the deteriorating outlook for prices made a period of stagnation necessary in order to open up spare capacity, thus containing price and pay pressures and inflation expectations.

The initial response of the financial markets was that the report was "dovish", signalling a shift to easier monetary policy before too long. After all, the central bank has slashed its growth forecast. It also envisages inflation falling sharply from spring 2009 and indeed dropping to just below the 2% target in two years' time. And labour-market figures released on August 13th showed another sharp monthly rise in those claiming unemployment benefit, as well as slower growth in earnings. Some City economists suggested that a rate cut might come as soon as November.

This looks premature. The bank pays a lot of attention to the risks surrounding the central projections. Although these are on the downside for growth, they are "significantly" on the upside for inflation, says the report. Mr King also chose to stress the upside risks to inflation, describing them as "serious" and explaining that they arose "from the possible impact of continuing high inflation in the near term on pay growth and on inflation expectations".

What this suggests is that the central bank will keep the base rate at 5% until it has become clear that the inflationary tide is ebbing, which will be in 2009 rather than 2008. That will do nothing to lift the spirits of Gordon Brown at a time of political peril following Labour's disastrous defeats in three recent parliamentary by-elections. With monetary policy on hold, the prime minister may be tempted to mount a fiscal rescue. But he is hemmed in by both his past imprudence as chancellor of the exchequer and the adverse impact of slowing growth on the public finances.

To add to his difficulties, the rise in inflation will make it still harder to afford budgetary sweeteners, such as the extra help with winter-fuel bills which the government is apparently contemplating. For example, social-security benefits worth almost £150 billion ($280 billion) in 2008-09 are uprated next year on the basis of the RPI inflation rate for September. According to Morgan Stanley, an investment bank, this will reach 5.3%, two percentage points higher than the Treasury expected in the March budget. Carl Emmerson of the Institute for Fiscal Studies, a think-tank, reckons the inflationary overrun would add some £3 billion to public spending in 2009-10.

With both monetary and fiscal policy so constrained, there is precious little the government can do to allay the economic pain over the coming year. As inflation rises, the squeeze on real incomes will intensify. With an election due by June 2010, Mr Brown has only a brief period in which to regain credit with the voters, even if inflation does fall sharply and the economy starts to recover from the middle of next year. It looks a tall order.

Nuclear disarmament

Swords and ploughshares

Aug 14th 2008
From The Economist print edition

The new nuclear pioneers

Illustration by David Simonds



BRITAIN as a "disarmament laboratory"? Tell that one to veterans of the Campaign for Nuclear Disarmament (CND). Earlier this year they celebrated the 50th anniversary of the first Easter protest march to Aldermaston, home of the Atomic Weapons Establishment (AWE) where research and design work continues on Britain's Trident-based nuclear warheads. Yet AWE has lately been turning its nuclear skills to a rather different purpose: finding solutions to some of the many difficulties that disarmament would pose if it ever turned from slogan to reality.

To CND's regret, and the annoyance of the Scottish Nationalists who want to eject the submarines that carry the country's nuclear-tipped Trident missiles from their Faslane base on the Clyde, Britain is not about to disarm unilaterally. It remains one of the five officially recognised nuclear powers, alongside America, China, France and Russia. Over the protests of its own left-wingers, last year the Labour government persuaded Parliament to replace the deterrent's ageing submarines; legislators will probably have to vote before long on replacing the missiles and warheads too.

The "disarmament laboratory" notion was floated last year by Margaret Beckett, foreign secretary at the time and a noted nuclear sceptic. A sop to Labour's left after the Trident decision? Or a cynical ploy, before the 2010 review of the Nuclear Non-Proliferation Treaty (NPT), to blunt criticism that Britain is not doing enough to honour its treaty pledge to work towards nuclear disarmament? Away from the politics of it all, defence officials and AWE have a more intriguing story to tell.

For the past 18 months AWE has co-operated with non-nuclear Norway and a London-based NGO, the Verification Research, Training and Information Centre (Vertic), on techniques for verifying that when a country promises to cut weapons, it really does. This involves finding ways to let inspectors snoop about places like AWE and other sites where fissile materials from both dismantled weapons and active ones are present, without inadvertently spreading the knowledge of how to build a bomb.

A mock exercise in November in Norway will have the British playing the inspecting sleuths and the Norwegians guarding sensitive materials (though using non-fissile cobalt, rather than the uranium or plutonium that go into nuclear weapons). Another team has been working on a monitoring device to check that materials and weapons are where they are said to be, without design secrets being stolen.

What both sides are learning is just how difficult all this is. Electronic gadgetry is tricky to use around high explosives of the sort used for bomb triggers, and it is hard to make any monitoring device reliably tamper-proof. Inadvertently letting out weapons secrets would not only break the NPT; it could land officials in jail, one admits ruefully. Just tossing around ideas on anything nuclear with an NGO in the room has already proved a culture shock for Britain's secretive nuclear folk. But Vertic is there to help reassure outsiders that the work is being done scrupulously by both sides. The results will be presented to an NPT preparatory meeting in 2009.

Britain is not doing this work (and other projects AWE is up to on its own) in a fit of altruism. At a maximum of 160 warheads (half its cold-war total), the British deterrent is now probably the smallest of the official five: America and Russia still have thousands of warheads; France has fewer than 300; China is thought to have up to 200. And the lower you go, the more confidence everyone needs that cuts can be

properly verified. Even at numbers above CND's preferred zero, those giving up weapons need to be sure that others are not diverting their nuclear materials and parts to a secret stash. Such "chain of custody" work will also mean exploring reliable tags and seals, and proliferation-proof monitoring of nuclear-storage areas.

Earlier this year the defence secretary, Des Browne, suggested that representatives from the weapons labs of all five official nuclear powers meet to see if some of the technologies mastered for weapons building could in future be turned to verification tasks. Hardly swords into ploughshares stuff. But the place would-be disarmers will have to start.

Real ale

Live liquid

Aug 14th 2008
From The Economist print edition

Folk-drink or aspirational libation?

EARLS COURT, a vast, high-ceilinged exhibition centre in west London, does not make for a promising pub. There are few seats, and the bright fluorescent lights do little to make drinkers feel at ease. But the lack of creature comforts did not dampen the high spirits of the students, beer connoisseurs and off-duty businessmen attending the Great British Beer Festival, billed as the world's biggest, on August 5th-9th. They roamed from bar to bar, sampling over 450 varieties of beer and cider.

Such good cheer may seem odd, given that beer seems to be falling out of favour in Britain. Sales have dropped by 9% over the past decade, in part because wine has grown more popular. But not all beers are the same. The festival was organised by the Campaign for Real Ale (CAMRA), a 90,000-strong lobbying group promoting traditional, unpasteurised, unfiltered beer, stored and served from casks wherein, with live yeast, it continues to ferment.

Sales of real ale have bucked beer's downward trend. According to TNS, a market-research firm, the volume of real-ale sales has grown by 3% over the past year, whereas total beer sales were flat. Among all alcoholic drinks, only cider and wine performed better. Around 600 breweries now produce real ale, says Adrian Tierney-Jones, a journalist and beer expert. Their number has doubled in 15 years.

Beer boosters argue that consumers prefer a higher-quality product. The stewards at Earls Court draw a contemptuous distinction between real ale and the “dead and lifeless” mass-produced lagers sold by the four brewers that dominate the British market. A wholesome image helps too, says one: “Nobody likes a lager lout, but have you ever heard of a real-ale lout?”

Others point to the backlash against big business and globalisation that also fuels sales of organic food and locally-grown vegetables. Many real ales are made from local ingredients by small, independent breweries, which flaunt their provincial credentials (and enjoy special tax breaks). Patriotism plays a part as well: one T-shirt at Earls Court flaunted a bulldog relieving himself on a European Union flag.

Allied to patriotism is tradition. Real ale competes in the popular imagination with tea as the folk-drink of the English. But the real-ale revival is no folk phenomenon. TNS says that real ale is mostly imbibed by the same rich or aspirational classes who helped to popularise (non-native) wine.

English spelling

You write potato, I write ghoughpteighbteau

Aug 14th 2008
From The Economist print edition

The rules need updating, not scrapping

GHOTI and tchoghs may not immediately strike readers as staples of the British diet; and even those most enamoured of written English's idiosyncrasies may wince at this tendentious rendering of "fish and chips". Yet the spelling, easily derived from other words*, highlights the shortcomings of English orthography. This has long bamboozled foreigners and natives alike, and may underlie the national test results released on August 12th which revealed that almost a third of English 14-year-olds cannot read properly.

One solution, suggested recently by Ken Smith of the Buckinghamshire New University, is to accept the most common misspellings as variants rather than correct them. Mr Smith is too tolerant, but he is right that something needs to change. Due partly to its mixed Germanic and Latin origins, English spelling is strikingly inconsistent.

Three things have exacerbated this confusion. The Great Vowel Shift in the 15th and 16th centuries altered the pronunciation of many words but left their spelling unchanged; and as Masha Bell, an independent literacy researcher, notes, the 15th-century advent of printing presses initially staffed by non-English speakers helped to magnify the muddle. Second, misguided attempts to align English spelling with (often imagined) Latin roots (debt and *debitum*; island and *insula*) led to the introduction of superfluous "silent" letters. Third, despite interest in spelling among figures as diverse as Benjamin Franklin, Prince Philip and the Mormons, English has never, unlike Spanish, Italian and French, had a central regulatory authority capable of overseeing standardisation.

Yet as various countries have found, identifying a problem and solving it are different matters: spelling arouses surprising passions. Residents in Cologne once called the police after a hairdresser put up a sign advertising *Haarflege*, rather than the correct *Haarpflege* (hair care). Measures to simplify German spelling were rejected by newspapers such as the *Frankfurter Allgemeine*, and defeated in a referendum in Schleswig-Holstein (though later endorsed by its legislature). A similar fate befell the Dutch, when opponents of the government's 1996 Green Book on spelling (*Groene Boekje*) released a rival *Witte Boekje*. French reforms in the 1990s didn't get off the runway, despite being presented as mere "*rectifications*", and attempts this year to bring European and Brazilian Portuguese into line were denounced in Portugal as capitulation to its powerful ex-colony.

There are linguistic reasons too why spelling reform is tricky to undertake. Written language is more than a phonetic version of its spoken cousin: it contains etymological and morphological clues to meaning too. So although spelling English more phonetically might make it easier to read, it might also make it harder to understand. Moreover, as Mari Jones of Cambridge University points out, differences in regional pronunciation mean that introducing a "phonetic" spelling of English would benefit only people from the region whose pronunciation was chosen as the accepted norm. And, she adds, it would need continual updating to accommodate any subsequent changes in pronunciation.

Yes despite these concerns, some changes are worth considering; it takes more than twice as long to learn to read English as it does to read most other west European languages, according to a 2003 study led by Philip Seymour of Dundee University. Standardising rules on doubled consonants—now more or less bereft of logic—would be a start. Removing erroneous silent letters would also help. And as George Bernard Shaw observed, suppressing superfluous letters will in time reduce the waste of resources and trees. In an era of global warming, that is not to be sniffed at.

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*Fish: gh as in tough, o as in women, ti as in nation (courtesy of GB Shaw). Chips: tch as in match, o as in women, gh as in hiccough.

The Tories and values

Right and wrong

Aug 14th 2008
From The Economist print edition

A mini-revival of social conservatism is in the air

BRITISH conservatives have largely eschewed the culture wars fought by the American right. Tories have had old-fashioned views on marriage and other moral issues, to be sure, but they have rarely given them much prominence. The lack of a vocal religious right partly explains why they have had a cooler relationship with the Republicans than the Labour Party enjoys with the Democrats. And David Cameron, their leader, began his stewardship of the party in liberal style, declaring himself eminently relaxed about the exotic lifestyles to be found in modern Britain.

All the more interesting, then, that recent weeks have seen tentative but unmistakable stirrings of social conservatism from the Tories. In July Mr Cameron gave a speech (in a church, no less) denouncing moral relativism. The fight against crime and other ills was, he said, being hamstrung by society's "refusal to make judgments about what is good and bad". On August 4th Michael Gove, the party's schools spokesman, deplored the portrayal of women in men's magazines. Conservatives such as Iain Duncan Smith, the party's former leader, and Ed Vaizey, its arts spokesman, have also criticised the British Board of Film Classification for giving the new Batman film a lenient 12A rating. Even the party's embrace of the "libertarian paternalism" espoused in "Nudge", the year's most talked-about book among policymakers, is telling.

Keen Tory-watchers are not surprised, arguing that Mr Cameron's instincts were never as permissive as many assumed during the early months of his leadership. As recently as 2003 he voted against the repeal of Section 28, a piece of legislation that prescribed what schools could teach about homosexuality. His support for providing fiscal incentives for marriage is long-standing—and, reputedly, a rare source of disagreement with George Osborne, his more liberal shadow chancellor. He has also thrown down the moral gauntlet to big business: he once scolded a high-street shopping chain for tempting customers into buying chocolates as impulse purchases, and a clothing retailer for selling suggestive underwear to young girls.

Beyond Mr Cameron himself, much of the Conservative party remains traditionalist. Over 80% of its MPs voted for a lower time limit on abortions in May. Research by Conservative Home, a website popular with Tory MPs and activists, suggests that a similar percentage of new parliamentary candidates standing for the party at the next election would do the same. Even many of the young modernisers around Mr Cameron have views more complicated than the free-wheeling libertarianism of caricature. Mr Gove is one; Jeremy Hunt, the shadow culture secretary, who has expressed concern at the liberalisation of gambling laws, is another. So too is Steve Hilton, Mr Cameron's hyper-liberal strategist, who helped to make social breakdown one of the party's key themes.

There is a risk in all this, of course. Crime is a growing concern among voters, and there may be demand for tougher punishments. But that is not the same as demand for family values. The most recent British Social Attitudes survey, using 2006 data, revealed a liberal nation: only 28% said that married couples make better parents than unmarried ones. Some insiders fear that the recent departure of Mr Hilton may remove a powerful check against further nods to the right, though he remains in constant and influential contact with senior Tories. And unless the party is sleaze-free, it can be undone by hypocrisy: John Major pledged a return to old-fashioned morality during the last Tory government, only to be embarrassed by scandal after scandal involving his own MPs.

Yet there is reason to believe that the Tories' flirtation with righteousness will not end badly this time. For one thing, theirs is not a heavy-handed approach. It generally rejects compulsion in favour of exhortation—an underrated policy instrument, they say, pointing to the success of government campaigns against smoking and driving after drinking. For another, the Tories have gone out of their way to stress that their social conservatism does not extend to race or sexuality—something that couldn't be said of all their predecessors. Any recent Tory leader who urged individuals to take responsibility for their own obesity, addiction or poverty would have provoked charges of nastiness. When Mr Cameron did it in July,

he got a fair hearing. It may be that, in the process of rebranding his political party, he has also decontaminated social conservatism as an ideology. American conservatives, take note.

Oyster cards

New tickets, please

Aug 14th 2008
From The Economist print edition

The contract for London's transport card is up for grabs

Get article background

FEW phrases in British politics are more radioactive than "Private Finance Initiative" (PFI), a convoluted scheme under which government pays private firms to carry out work on its behalf. Many such contracts have been plagued by delays and costly legal disputes. For all the talk of greater efficiency, the real attraction of building and running schools and hospitals, say, through a PFI arrangement is that it allows the government to shove spending off the official balance sheet (although that loophole is to be closed next year).

Yet not all PFIs have been disasters. One of the best has been London's Oyster-card system, which allows travellers to store their entitlement to use the Tube or city buses on a computerised card that gets them through ticket barriers with a simple wave of the wallet. The little blue card has been a big success: over 10m have been issued since its launch in 2003, 6m are in active use and four-fifths of the journeys on London's public transport involve one.

So there was surprise when Transport for London (TfL) announced this month that, come 2010, it would be ending its contract with TranSys, the consortium (made up of EDS, Cubic, Fujitsu and WS Atkins) responsible for running the system. TfL argues that despite Oyster's public success, the contract (which was signed in 1998 before TfL came into existence) is not working well. "The price of this contract was locked in 1998," says Shashi Verma, head of fares and ticketing at TfL. "Costs have been declining for years, but because we're locked into a 17-year contract we don't get any benefit from that." By opening the contract to competitive tender, TfL hopes it can save some cash.

There may be other reasons. TfL has big plans for what started out as a system designed simply to make access to the underground more convenient. London transport officials have for years been prodding recalcitrant train companies (over which they have no direct control) to introduce Oyster cards on their commuter routes into town, a plan that is at last bearing fruit. TfL has experimented with letting travellers use their cards to pay for small items, such as newspapers and snacks. And it has investigated tying tickets for events at the 2012 Olympics to Oyster cards, allowing officials to squash the black market and regulate access to the transport network. "Oyster is running at the edge of its efficiency," says one transport-watcher. "They need to upgrade the system to do those things, but it's hard to see how that will save them money."

There are other worries. Cost savings may be bitten into by rows over the Oyster brand name, which is owned by TranSys rather than TfL. Switching to a different provider will require TfL either to negotiate a license to continue to use the brand, or else to run an advertising campaign informing users that Oyster has changed its name. And politicians are getting nervous about switching just before the Olympics.

If Oysters begin to be used more widely, security will matter more. But the chips that power them are old. In recent months researchers in the Netherlands have managed to clone the cards and ride around London free for a day. TfL argues that, even if the cards are compromised, routine back-office checks will identify any suspicious behaviour (they claim to have spotted what the researchers were up to within hours). A renegotiated contract could allow TfL to switch to a more secure system, but officials insist that such drastic action is not necessary. That sounds reassuring—but until full details of the system's vulnerabilities are published, as they will be in October, it is impossible to know for sure.



Plugging in

Aug 14th 2008
From The Economist print edition

For all the political hype, London is still ambivalent about them

Reuters



More where this came from

ONCE the preserve of ageing former presidents, overfed golf stars and milkmen, electric vehicles are much in vogue these days. A survey this month by esure, a car-insurance company, found that 71% of British motorists would consider driving one, and all the main political parties have burnished their green credentials by supporting financial incentives for owners of cars with low carbon-dioxide emissions. This, and the painfully high price of petrol, has seen the number of electric cars in London increase dramatically, from 90 in 2003 to 1,600 in 2008.

At first glance, this figure seems bound to rise further. Last month Boris Johnson, London's new mayor, said that he was setting up a body to support electric-car drivers in the capital—the Electric Vehicle Partnership for London. Top of its list of things to do is installing more public points at which electric-car owners may top up their batteries. At the moment there are 40 spots dotted around the London streets where drivers who have paid £75 for a key can pull in and plug in free of charge, and some privately owned car parks have charging points too. Another 100 charging stations are now on the cards.

London officials are also interested in talking with Renault-Nissan, which builds plug-in electric cars and the networks that support them. The carmaking alliance has focused so far on selling to small countries—especially net energy importers that are struggling with soaring fuel prices—and has concluded deals to set up networks of battery-exchange and recharging points in Israel, Denmark and Portugal. Increasingly, however, it is directing its marketing efforts at large cities.

Yet what London gives with one hand, it takes away with the other, it seems. Electric cars are currently entitled to free parking in several London boroughs. This, in Britain's crowded and overpriced capital, is perhaps the strongest financial inducement to drive electric cars (they are also exempt from vehicle-excise duty and London's congestion charge). The free-parking scheme in the financial district runs out at the end of this year; by 2011 owners of electric vehicles will pay the same as everyone else. That will dim the cars' appeal.

For all their environmental worthiness, electric cars at present have limited range and usefulness. Much is made of how little they cost to run. But commercial parking fees of £4,000 or so a year could well tip the scales for those without stratospheric salaries for whom electric cars compete more with public transport than with private cars. The justification for removing free parking—that electric cars, however green, take up valuable space—is fair enough. But it will not win more electric-car owners: on that logic, the congestion-charge exemption could (rightly) be the next to go.

The modesty of London's ambitions also smacks of ambivalence. Against the city's planned 140 charging

points, Israel wants 500,000, albeit nationwide. Beyond London, progress is only slightly better: to the 60 charging stations that now exist a further 1,000 are to be added by the end of 2009. In late July Gordon Brown pledged £90m to help make Britain “the European capital for electric cars”. Sadly, the capital of this prospective capital, for the moment at least, appears to be in two minds.



WORLD INTERNATIONAL

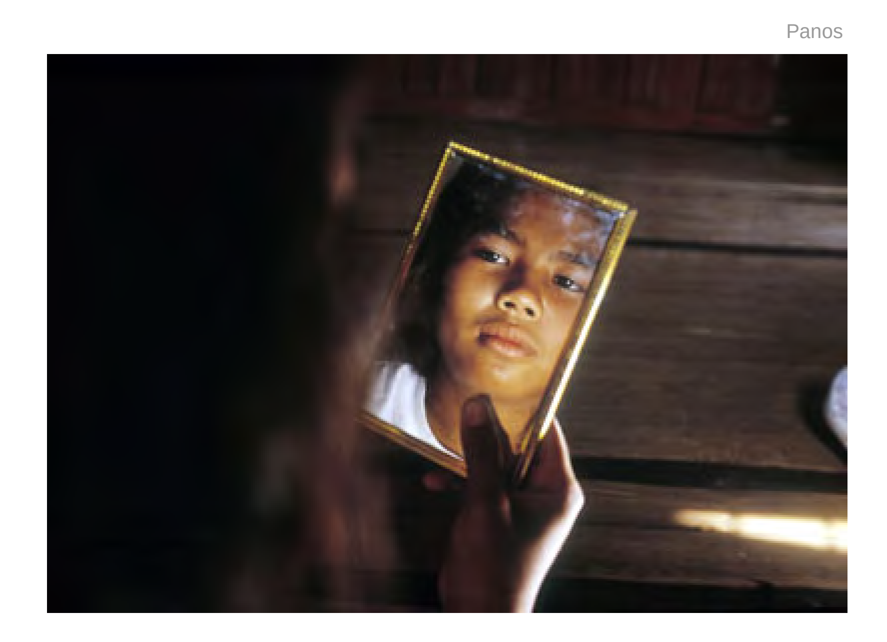
People-trafficking and people-smuggling

Drawing lines in a dark place

Aug 14th 2008
From The Economist print edition

Coercing hapless human beings into sex or servitude is obviously evil, but defining the problem (let alone solving it) is very hard

Panos



LIVING from the forced labour, or unwillingly provided sexual services, of vulnerable people is a horrific business, and more should be done to punish the perpetrators and succour the victims. That is a sentiment to which almost all governments readily assent, even in the (quite large) slice of the world where links exist between officialdom, the police and the shady types who trade in flesh.

And at least in principle, cross-border trafficking is acknowledged to be so manifestly dreadful that every civilised state must be seen to help correct this wrong. As one sign of this feeling, a Council of Europe convention on trafficking went into force this year; 17 countries have ratified it.

The American government has for the past eight years been mandated by law to wage a many-fronted struggle against human trafficking, at home and around the world. And some hard arguments are now raging in Washington, involving politicians, lobby groups and rival government agencies, about whether the struggle should be escalated.

Why, one might ask, should there be arguments about an issue that, in moral terms, seems so clear-cut? Mainly because the precise definition of trafficking, and hence of trafficking victims, is in reality quite difficult—whether you are a policeman or a moral philosopher.

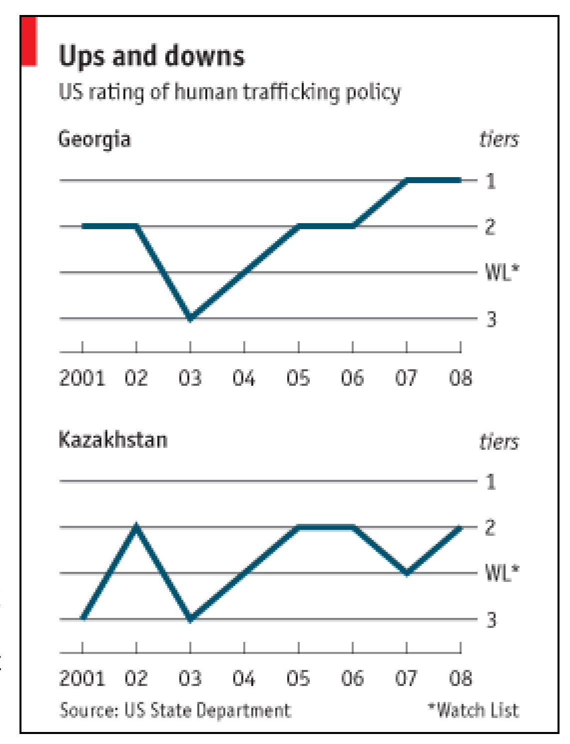
Among pundits, people-trafficking is distinguished from the lesser evil of people-smuggling—an uncomfortable but almost unavoidable part of social reality in areas that adjoin rich countries with a demand for labour. In Kosovo, it is an open secret that you can be whisked illegally to Vienna by paying €4,000 ($6,000) to a professional smuggler. The Bosnian town of Bijeljina, once a black spot for ethnic cleansing, is now a way-station for south Asians who pay around $16,000 per head to be smuggled into the EU heartland: half on departure and half on arrival.

People-smuggling is done with the consent of those involved; they have no further debt to the gangsters who abet them once they arrive. Trafficking means moving people under duress or false pretences—or in order to use them for forced labour (ranging from domestic work to commercial sex). So the theory goes; but in practice, as the latest State Department report concedes, there is an overlap between the two activities. It often happens, for example, that a poor Indian is hired for menial work in a Gulf state—

only to find that his wage is much less than promised, and his passport is seized. This leads to a form of servitude, and that person's treatment could be called trafficking.

Despite the grey area, public perception of the two problems often diverges. In Australia, for example, public opinion favours a tough line over people-smuggling—but there has been a surge of sympathy for the victims of trafficking (often brought to Australia from Thailand or Indochina) since the release last year of "The Jammed", a film set in a Melbourne brothel.

And in recent years both the sharper definition of, and the fight against, human-trafficking have become a high priority for the State Department; its grading of other countries' anti-trafficking efforts is an elaborate and closely-watched business. Countries in "tier 1" (including most of the EU but not Ireland, Greece, Estonia or Latvia) are deemed to comply fully with the minimum standards of American law. Those in "tier 2" don't yet comply but are trying hard. A lower tier, labelled "Watch List", consists of countries that are trying, but not hard enough or with good enough results. In the bottom "tier 3" (including American allies like Saudi Arabia) are those that are neither complying nor trying hard enough. Even rickety post-Soviet states (see chart) can improve their scores if they follow what is deemed to be the right advice.



As the State Department has found, it is hard to discuss cross-border trafficking without looking at what occurs inside countries. Its reports have thus broadened into a more general look at the ways in which people are forced to work or have sex against their will. Servitude, it finds, can take many forms: for example, children are mutilated and forced to beg—or else fight in ghastly wars. Slavery, the State Department suggests, happens in many successful emerging economies; it cites bonded labour in Brazil's plantations, or children working long hours making bricks in China. Indeed, bits of the department's 2008 report read as though they were penned by a left-of-centre NGO, decrying the dark side of globalisation.

And some of the other ideological issues now coming to a head in Washington are even more contentious. Behind them all is an emotive question: whether there can be such a thing as willing prostitution.

How far can you go?

Since 2002, the policy of the United States has been to oppose prostitution, and to urge all governments to "reduce the demand" for prostitutes through education and by punishing those who patronise them. But how far can this principle be pressed? As passed by the House of Representatives last year, a new bill on protecting the victims of trafficking could have made it illegal for Americans to consort with prostitutes anywhere in the world (even when the prostitutes are adults, and in countries where buying sex is legal). The House version of the bill would also broaden the obligations of America's federal (as opposed to state) authorities to curb the trafficking of sex workers inside the country. The Justice Department (amid many other objections) said all this would place a huge burden on federal agencies that are already overstretched.

Supporters of stepping up the fight (who range from feminist groups to the religious right) compare their campaign to that of William Wilberforce, whose efforts to free the British empire's slaves bore fruit 200 years ago. John Miller, an ex-head of the State Department's anti-trafficking programme, has deplored the Justice Department's campaign to modify the proposed legislation; its complaints, he says, imply leniency towards an absolute evil, slavery. But the American Civil Liberties Union, a lobby group, has praised the Senate for deleting language which, in its view, would make prostitution and trafficking virtually identical. Lots more arguments can be expected before the bill reaches the White House.

In fact, says Jorgen Carling, a Norwegian who has studied the trafficking of Nigerian women to Europe, it is rarely possible to draw the absolutely clear line that policymakers want between "innocent victimhood" and "willing participation" in sex work. For example, people may know that they are being taken abroad

as sex workers, but have no idea of the harsh conditions, and the absolute loss of control over their lives, that they will face. This may be an area of life where most people can recognise evil when they see the details of one horrifying case—but where it will always be hard to make hard-and-fast rules that suit every country.

Transiting through Turkey

A tragic crossroads

Aug 14th 2008 | ISTANBUL
From The Economist print edition

The luckless folk who try to get to, and through, Anatolia

AFP



A desperate search for human remains

THANKS to history and geography, Turkey serves as a way-station between continents and cultures. But not all the people who transit through that country see it in such a romantic way.

Take Mohammed Homadu, a young Somali who fled a homeland ravaged by Islamist insurgency. He paid $230 to a smuggler who promised to get him to Greece. After three harrowing weeks on a ramshackle boat, he and 72 fellow Africans were dumped in the sea by their captain off Turkey's Aegean coast. “We were rescued by Turkish fishermen,” says Mr Homadu, who now earns $4 per day doing odd jobs in Istanbul. “But four of my friends, they drown.”

Wedged between Europe and Asia, Turkey serves as a big transit route for people-smuggling. It also serves the darker business of bringing sex workers westwards from the ex-Soviet republics of the Caucasus and Central Asia.

Tens of thousands of illegal migrants are thought to cross Turkey every year. And some have it worse than Mr Homadu. Last month 14 illegal migrants, mostly Pakistanis, suffocated in the back of a lorry taking them to Greece. The bodies were left near Istanbul, giving police (see picture) a grisly forensic task.

There is pressure on Turkey, an aspiring European Union member, to curb the twin evils of smuggling and trafficking. Results are mixed. The harsh terrain dividing Turkey from Iran and Iraq (from where most illegal migrants sneak in) is hard to control; so too is corruption.

Western governments say Turkish practice is haphazard, letting some illegal entrants in while using arbitrary force to keep others out. In April four people drowned after Turkish police allegedly pushed a group of refugees into a river and made them swim back towards Iraq. The incident (corroborated by witnesses) prompted a harsh rebuke from the United Nations refugee agency; Turkey denies any wrongdoing.

Police in Istanbul have been accused of detaining and beating illegal migrants, especially those with black skins. Some of them are forced by police to do heavy manual jobs, says Ozlem Dalkiran, who runs an EU-funded project for refugees. As for trafficking, the picture is brighter. Recent data suggest a drop in the number of foreigners trafficked to Turkey to provide sex, says Maurizio Busatti of the International Organisation for Migration. The number of victims identified by Turkish officials fell from 246 women in 2006 to 148 last year. Over the same period, the number of convictions of suspected traffickers quadrupled.

The authorities have used television ads to challenge the macho Turkish myth that sex workers “ask for it and want it”. “Did you know that over half of trafficked women are mothers too?” asks one spot. Having been ensnared by talk of work as “fashion models” or “dancers”, a growing number of such women are rescued by semi-chivalrous male customers, who alert the police. Customers, says Mr Busatti, are not just part of the problem, but also part of the solution.

Food retailing in Europe

The Germans are coming

Aug 14th 2008 | PARIS
From The Economist print edition

Germany's "hard discount" model of supermarket retailing is spreading in Europe

Guardian News & Media



IT IS as far from the charming ideal of French farmers' markets and small family-owned shops as you could imagine: strip lights glare down on a narrow range of products in ugly packaging, displayed in cardboard boxes piled on the floor and on low shelves. But sales are booming at the new Lidl discount supermarket in south-west Paris. Previously, the German chain stuck to the suburbs, where poorer folk live, says Fatouh Mourad, the store's manager. But rising food prices and widespread concern about "*pouvoir d'achat*", or purchasing power, in France, has given Lidl the confidence to push inside the city's limits.

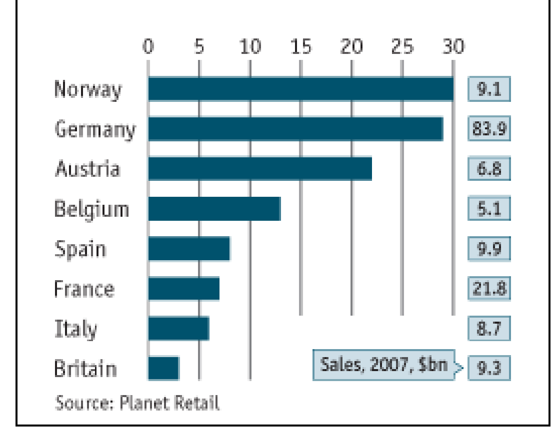
As economic prospects worsen across Europe, discounters such as Lidl—and Aldi, another German chain—are taking market share. They generally charge some 30-50% less for groceries than ordinary supermarkets. In France, according to TNS, a research firm, discounters increased their market share to 11.2% in the second quarter of this year, up from 10.5% a year ago, whereas the share fell at Carrefour, the world's second-largest retailer. In Belgium a local discounter, Colruyt, is gaining share at the expense of Carrefour and other pricier chains. Dutch shoppers too are trading down to discounters, says TNS, and in Britain, where Aldi and Lidl struggled for years, they are now the fastest-growing grocers.

Discounters affect prices well beyond their own stores. "There's a massive global price-war in food retailing, much of it provoked by the gains by Aldi and Lidl and other discounters," says James Amoroso, a food-industry consultant. Tesco, the world's fourth-biggest retailer, is fighting an all-out price war against Lidl in Ireland, and Belgium's Delhaize recently slashed prices in response to discounters. Carrefour, too, is under pressure to cut prices.

But can the discounters can hold onto their gains? Tesco's finance director recently suggested that they were merely having a "moment in the sun". He was quickly contradicted by the head of buying for Aldi in Britain, who pledged to open a store a week and win a tenth of the market (it has 2.9% now). In Germany, the heartland of discounting, cut-price operators have some 30% of the market, according to Planet Retail, a consultancy (see chart), and shopping at Aldi and Lidl is the norm for rich and poor alike. The two firms doubtless reckon they have a shot at replicating that position elsewhere.

They may well succeed, at least in some markets. "It's the best business model for retail in the world," says Philippe Suchet of

Exane BNP Paribas in Paris. Discounters stock a fraction of the goods that a normal supermarket offers, resulting in fewer suppliers, a high volume of purchases and sales, and massive economies of scale. “You would find 16 brands of tomato ketchup in a normal big supermarket,” says Paul Foley, managing director of Aldi in Britain. “In my store you will find a choice of one.” Discounters mostly sell their own private-label goods, which are more profitable than branded goods, where the brand owner takes a big cut, and also more efficient—having bar codes in exactly the same place on every product, for instance, says Mr Foley, means faster checkouts.



Aldi and Lidl, which dominate the world of discounting, have annual sales estimated at €43 billion ($64 billion) and €35 billion respectively, compared with €102 billion for Carrefour. They are privately owned and can take a long-term approach to expanding abroad. New stores cost little to open and generate rapid sales, says Jürgen Elfers, retail analyst at Commerzbank in Frankfurt, so the discounters can expand during hard times more rapidly than any other kind of retailer.

The two firms are intensely secretive and say little about their expansion plans, but new stores are opening all the time. They are expected to expand quickly in France now that a law designed to keep discounters out has been changed. Lidl is poised to go into Switzerland, and in a rare interview last year its chief executive said it wanted to tackle America. (Aldi is already present in both markets.)

Lidl recently caused a fuss in Dublin, when it bid for a site on fashionable Grafton Street: critics complained it would lower the tone. But Lidl may not be so out of place, since middle-class people are changing their shopping habits to buy at least basic items at hard-discount stores. Five years ago in Britain, says Mr Foley, a quarter of his customers were well-off shoppers; now half of them are. Economic worries are part of the reason for that, of course, but Aldi appeals to middle-class shoppers because it manages to produce goods of surprisingly high quality at a low price.

What should perhaps worry conventional supermarkets most, in fact, is that the discounters have proven themselves adept at moving upmarket, even as they retain most of their efficiencies. In many markets, for instance, Lidl now stocks a limited range of branded goods alongside its cheaper own-label items. In Britain Aldi used to be known for tinned and packaged foods, but has introduced fresh and delicatessen products. In Germany Lidl even tried to buy a chain of organic supermarkets until an outcry scared it off. But there is a limit to the range of products discounters can stock while maintaining the efficiency of their model, cautions Mr Amoroso.

In recent years the German discount model has experienced only one big setback. In March Lidl pulled out of Norway after four years of trying to establish itself. Rema 1000, a local discounter, will take over Lidl’s stores there. Executives at the posher kind of supermarket must be longing to know how the Norwegians did it.

Dealing with the downturn

Perfecting pitches

Aug 14th 2008 | SAN FRANCISCO
From The Economist print edition

As belts tighten, marketing teams are finding ways to do more with less

ONCE the glamour and the glitz of the Olympics have faded, American marketing bosses will face a sobering reality. Although America's advertising market is still forecast to grow this year—to $285 billion, up from $280 billion in 2007, according to Magna Global, a marketing-services firm—that is largely due to the fillip that it is getting from the games and the upcoming presidential election. When they are over, the outlook for advertising, and for the marketing budgets that pay for it, is bleak.

Several industries, including banking, telecoms and consumer goods, have already made deep cuts in their marketing budgets, which are typically one of the first areas to be chopped in a downturn. In response, marketing folk are looking for ways to save money and to get more bang for their remaining bucks.

Carmakers, collectively America's largest advertisers, have taken the biggest axe to their marketing budgets as they grapple with a fall in sales of gas-guzzling trucks. TNS Media Intelligence, a research firm, reckons that carmakers spent some $3.2 billion on marketing in the first quarter of 2008, 11.5% less than in the same quarter of 2007. And it expects that trend to continue. "Auto spend will be retrenched primarily around new-model introductions," predicts Jon Swallen, TNS's head of research.

Given this belt-tightening, car firms have been revisiting their marketing arrangements in order to save money. General Motors, which has just launched a new corporate advertising campaign, has asked its ad agencies to find ways in which it can cut some of the millions of dollars that it pays in fees. Its rivals in Detroit, Ford and Chrysler, no doubt have their marketing budgets under the microscope, too.

Coca-Cola is another big spender that is rejigging its marketing set-up. As part of the soft-drinks company's plan to save $400m-500m by the end of 2011, it is scrapping market-research deals with several different firms and replacing them with a global deal that it has struck with a single—and as yet unnamed—supplier. A Coke executive says that by putting its market-research business under one roof, it will reap savings and get extra services thrown in that it did not have under the prior deals.

As well as driving harder bargains with suppliers, firms are also being more selective about the channels they use to communicate with existing and potential customers. This favours the internet, which allows marketers to address focused audiences and quickly gauge the return on their investment. Most experts expect online ad-spending to keep rising this year, albeit at a slower rate than in the past, as spending on most other kinds of media shrinks.

For some marketers the downturn may even be a blessing in disguise. When the good times roll, a strong marketing message can be drowned out in the cacophony as brands compete for consumers' attention. But as weaker firms cut promotion in a slowdown, relatively strong rivals that maintain or increase their marketing spending can stand out more easily and steal market share. Bank of America in financial services and Verizon in telecoms are two firms that have been spending heavily on ads this year, even as many of their rivals have been cutting back.

Another reason for cheer in some marketing circles is that high energy and commodity prices have made it easier to push through price rises, even if companies do not need them because they have offset extra costs by operating more efficiently. "Some firms now have cover to raise their prices without alienating customers," says Julie Hennessy, a marketing professor at the Kellogg School of Management at Northwestern University.

A few marketers are even looking to turn the downturn to their advantage by creating ads that play on consumers' fears of soaring prices. These work best when the firms behind them are already associated with a low-cost positioning. For instance, AirTran Airways, a discount airline, recently boasted it now offered "fares cheaper than a tank of gas". That deserves a gold medal for copywriting.

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Mining

Could be more resourceful

Aug 14th 2008 | DELHI
From The Economist print edition

A young multinational mining giant gets a taste of multinational criticism

ActionAid Photo Library



ONCE a princely game reserve, the Niyamgiri hills (pictured) in Orissa, one of India's poorest states, are now known for a richer quarry: bauxite, from which aluminium is made. On August 8th, after a 22-month delay, India's Supreme Court gave the Indian arm of Vedanta Resources, a metals and minerals giant, permission to mine the ore, which will feed the firm's alumina refinery nearby. The decision was condemned by international campaigning groups which say the project will rob tribal people of their way of life. As Vedanta has found, these groups can mine a controversy with the same determination as the firm can mine a hilltop.

Vedanta has its roots in India, where its founder was born and raised and where most of its operations remain. But it has turned itself into a global company, listed on the London Stock Exchange, with a spot in the FTSE 100 index. Its new reach allows it to tap investors in one part of the world and mineral deposits in another. But it also exposes it to critics from Orissa to Oslo.

Even as the company prevails in the trench warfare of India's courts, it is faring less well in the asymmetric battle for public approval. Its Niyamgiri venture has attracted intrepid journalists and passionate photographers, such as Jason Taylor and Sanjit Das, who mounted an exhibition of tribal portraits in Delhi in July. Critics have also travelled in the other direction: angry villagers from Orissa were flown to Vedanta's annual general meeting (AGM) in London on July 31st.

Vedanta's response has been muted. It answers queries about the project, but it has not met every accusation with a rebuttal or riposte. This is perhaps because companies from the developing world find it harder to take foreign critics seriously. Why should they listen to outsiders, who live thousands of miles from the places they talk about? C.V. Krishnan of Vedanta says the firm would rather concentrate on winning the support of people near the site.

The company has also preferred to leave the matter to the courts, promising to abide by their decisions. But the courts are not deaf to the campaign. Last year, for example, Norway's sovereign-wealth fund sold its Vedanta shares (worth $13m at the end of 2006), after its ethics council raised qualms about the company. Those misgivings were then cited by India's Supreme Court when it refused to approve Vedanta's venture in November.

In the past Western resource giants mounted similarly "legalistic" responses to controversies, says Daniel Litvin, a former correspondent for *The Economist* who now runs Critical Resource, a consultancy which advises energy and mining firms on their social and environmental policies. But they now aim to appease their critics, instead of ignoring or attacking them. Firms try to pre-empt critics' concerns, by talking to them as early as possible, long before the first tree is felled or the first villager displaced. And they go out

of their way to demonstrate their sensitivity to the social and environmental upheaval big mines inevitably bring. Such an approach can forestall the fiercest criticisms, Mr Litvin argues. For example, Rio Tinto's ilmenite mine in Madagascar has proven less controversial than expected.

In India the Supreme Court eventually cleared Vedanta's project on the condition that it join a special-purpose vehicle with the state government and the state-owned Orissa Mining Corporation. This joint venture will spend 100m rupees ($2.4m) a year, or 5% of its operating profits (whichever is greater), on fighting poverty in the area, and further sums on protecting wildlife and tribal people. Mr Krishnan calls this a "beautiful idea". Perhaps the company should have thought of it first.

It should be some consolation to campaigners that nothing Vedanta now does in Orissa will escape notice. Of greater concern are the smaller, more obscure firms which have no reputation to protect. The developing world's global giants now endure global scrutiny. But not every polluter has upstanding Norwegians investing in it, or holds its AGM in London.

Economist.com BUSINESS

Pay TV in Africa

Going for goal

Aug 14th 2008 | KINSHASA
From The Economist print edition

A newcomer is shaking up satellite television in Africa

WITH only 14% of families owning a television, sub-Saharan Africans are in little danger of turning into couch potatoes. But the region's economy is doing better than it has in decades, and many countries have a small emerging middle-class eager to spend their new wealth. That, at least, is the calculation of GTV, a satellite-television company created just over a year ago. So far it has signed up more than 100,000 customers in 20 countries—which, it reckons, translates into 1.25m regular viewers. This week it launched its first francophone service, in Congo and Cameroon, to be followed shortly by Côte d'Ivoire. GTV expects to be operating in 36 African countries by the end of the year.

This is shaking up the quasi-monopolies that Canal+, a French operator, and DStv, a subsidiary of Naspers, a South African media giant, have enjoyed for years. With few people able to afford a television, let alone a satellite subscription, pay TV remains limited to less than 1% of the African market. In Lingwala, a poor neighbourhood in Congo's capital, Kinshasa, only ordinary TV aerials can be seen sticking out of the houses lining the unpaved streets.

This is where GTV sees its opportunity. Traditional, free-to-air television in Africa usually combines poor reception with tedious programmes. By offering cheaper packages than its satellite-based rivals and tailoring content to appeal to local markets, GTV hopes to sign up millions of customers over the next few years. A subsidiary of Gateway Communications, a pan-African telecoms firm, GTV is piggybacking on its parent company's satellite network and local experience.

In Africa, as in much of the world, sport is what people are most willing to pay for. When big soccer games are on, bustling cities like Kinshasa come to an eerie standstill as fans huddle around TV sets. European and particularly English football, with its big stars, is hugely popular. “Such emotion: it sells,” says Jean-François Mubiayi, a Congolese football commentator.

So when GTV snatched from DStv the rights to broadcast 80% of the English Premier League's football games live across much of sub-Saharan Africa, it was a coup. GTV is also investing in local football leagues in Uganda, Tanzania and Ghana, and broadcasts local games live, often for the first time. This is helping to spruce up stadiums, revive moribund clubs and bring fans and sponsors back to the games.

Besides sport, GTV also offers popular soaps, series and films from Hollywood, Nollywood (Nigeria's version of tinseltown) and other parts of Africa. It has added international news, religion and children's programmes to the mix. According to a recent report on African broadcast markets from Balancing Act, a research outfit, GTV has captured five out of seven new satellite subscribers in countries where it competes with DStv. In Uganda GTV claims that it has already grown bigger than its South African rival.

Unlike its competitors, which until recently were happy to focus on the small but profitable group of affluent Africans and expatriates, GTV is betting on scale from the start, striving to make pay TV more affordable and accessible. Julian McIntyre, GTV's founder and chief executive, points out that over 80% of his firm's subscribers are first-time satellite clients. Collins Omondi, a policeman from Nairobi, is one of them. Before GTV launched in Kenya, he used to watch terrestrial television or go to bars to watch football, since he was unable to afford satellite. He subscribed to GTV last year to watch English football, and suspends his monthly subscription when the season ends.

The DStv giant is not sleeping, though. It had already started offering cheaper subscriptions before GTV appeared on the scene. It launched Africa Magic, a channel dedicated to African soaps and movies, mainly from Nigeria, five years ago. It also started supporting local football leagues in Nigeria, and is now doing the same in Kenya, Angola and Zambia. And it broadcasts Italian, Portuguese and Spanish football, too. Earlier this year it launched a basic package for a mere $30 a year.

Despite losing most of the English Premier League live games, DStv is doing well: outside its South African

base, it signed up 140,000 new subscribers last year and had 680,000 subscribers in over 40 countries by March. It also has over 1.7m customers in South Africa, and is established in other big markets such as Nigeria, where GTV cannot yet afford to be, and Angola. Eben Greyling, DStv Africa's boss, reckons that by 2015 it will have as many subscribers in the rest of Africa as in South Africa.

Greater competition is good, but there are problems. Customers are unwilling to pay for television unless they have reasonably reliable electricity, which cannot be taken for granted. Piracy is also a problem for pay-TV operators: anyone with a decoder can rip off premium content and retransmit it, and copyright is often hard to enforce in Africa. Kinshasa has over 50 free-to-air channels, for example, which sometimes shamelessly lift content.

GTV is off to a good start, having spent $130m on its roll-out so far. But it is not yet profitable, since it is focusing on building up critical mass. And competition will drive up the price of content. DStv has been going for over 15 years and has deep pockets—which will no doubt come in handy when the English football rights come up for grabs again next year.

Face value

Triple therapy

Aug 14th 2008
From The Economist print edition

Andrew Witty of GlaxoSmithKline has a three-part prescription for the pharmaceuticals giant

Reuters



IT IS a rare company boss, let alone one who has just got the top job, that can get away with likening his firm's culture to a police state. But Andrew Witty, the new boss of GlaxoSmithKline (GSK), a British pharmaceuticals giant, somehow manages to pull it off. He invokes that analogy—tentatively, to be fair—to explain the cultural transformation he wants to see at GSK: away from today's excessively regimented, rule-based approach towards the "utopia" of a simplified, values-based culture that trusts employees to do the right thing.

Mr Witty gets away with it in part because he is amiable. He is certainly very different from his abrasive predecessor, Jean-Pierre Garnier, who retired in May after a tumultuous term as chief executive. Mr Witty has already set the tone for a more open style of management. Whereas J.P., as his predecessor was known, often seemed arrogant, Mr Witty began his tenure with a listening tour. J.P. controversially insisted on living in Philadelphia; Mr Witty is not only based at GSK's headquarters in London, but he even plans to move his office next to the staff canteen so he can be more accessible.

The new boss can also joke about police states because his loyalty to GSK is unquestioned. Having spent nearly his entire professional career at the firm, he is the ultimate insider. By contrast, two years ago Pfizer, GSK's American rival, picked Jeffrey Kindler, a lawyer with little pharmaceuticals experience, as its new boss. Perhaps needing to build up credibility and knowledge of his firm, Mr Kindler took his time crafting a turnaround plan. Mr Witty, however, has already announced big changes at GSK. Driving this strategic revamp is his desire to "derisk" the firm to provide reliable growth with less volatility.

His plan has three components. First, he wants to end the obsession with blockbusters, which he likens to "finding a needle in a haystack right when you need it". The industry's reliance on risky blockbusters, he reckons, makes it vulnerable to "sudden torpedoes" in the form of lawsuits from generics firms, or regulatory crackdowns like the one that recently hit Avandia, GSK's big diabetes drug. Instead he wants researchers to look for many more potential drugs, both small and large, that can make up a more reliable pipeline. This, he reckons, will make GSK's drug-discovery efforts more akin to a nimble fleet of destroyers, rather than two or three vulnerable battleships.

Second, Mr Witty wants the firm to expand its businesses beyond prescription-drug sales in the rich world, so that its revenue streams are more diversified. To this end, he has announced a big push into emerging markets, which many drugs giants had hitherto seen as mere charity cases. He is also taking the firm into the branded-generics business through a deal with Aspen of South Africa, which should help smooth out GSK's earnings volatility.

Third, and most controversially, Mr Witty has been sitting down with his biggest customers to ask them what future products they are willing to pay for. This might seem like common sense in any other industry, but it has been heresy in the drugs trade. In the past Big Pharma innovated as it saw fit, and big payers (such as Britain's National Health Service, or America's "pharmacy-benefit managers" and insurers), then coughed up for its pricey pills. But now health services and insurers are refusing to reimburse fully for drugs that are deemed to provide poor value for money. Britain has even set up an official agency, the National Institute for Health and Clinical Excellence (NICE), to do explicit cost-benefit analyses of this sort.

In his previous job as head of GSK's European arm, Mr Witty shocked the industry by striking a deal to delay full reimbursement for certain new pills until, and only if, they generated the promised health benefits. He plans to do more such deals, which he says already inform GSK's decisions about which drugs to bring to market. He is so keen to tie his firm's research efforts to value in the marketplace that he has rejigged the bonus scheme for researchers: rather than rewarding them for regulatory approval of a new drug, it will now reward them for drugs that are both approved and earning money.

The insider outsider

Mr Witty has a good chance of making all of this work because of his credentials as an insider. Being a career GSK man, he says, means he knows the firm intimately, and gives him an emotional bond that no "hired gun" could have. But Mr Witty also has experience as an outsider in his favour. Although he has spent nearly all his professional life at GSK, he once left the company for a year to work at a small biotechnology firm. He was soon lured back again, but not before he had seen firsthand how a nimble research operation works. That experience, he says, is why he wants to break down GSK's research teams into smaller, fleeter units that compete for funding. He is setting up a $1 billion research fund that will distribute money based on advice from a board that includes some leading venture capitalists.

Mr Witty's education as an economist (he trained at Britain's Nottingham University) also sets him apart from most Big Pharma bosses. He thinks this training has given him a sceptical eye and a willingness to make tough-minded decisions. It may also help explain his intuitive embrace of the sort of cost-benefit analysis done by NICE that so irks his rivals. But society is increasingly demanding greater value for money from his industry, and Mr Witty says he has "no problem with that". His career also took him away from the London headquarters for many years, which adds to his status as an insider-outsider. His time in Asia seems particularly to have made an impression on him. He explains how one change of leadership in India led to a dramatic growth in sales, and convinced him that one person in the right job can make a vital difference. GSK's shareholders will be hoping that Mr Witty himself proves the point.

Globalisation and health care

Operating profit

Aug 14th 2008 | NEW YORK
From The Economist print edition

Jonas Bergstrand



Why put up with expensive, run-of-the-mill health care at home when you can be treated just as well abroad?

ROBIN COOK knows how to spot the latest scare in medicine. Mr Cook, a Harvard-trained doctor, is author of over a dozen medical thrillers, including “Coma” and “Outbreak”, which have anticipated pandemics, anthrax attacks and the black market in organs. “Foreign Body”, published this month, is about the next big thing: medical tourism.

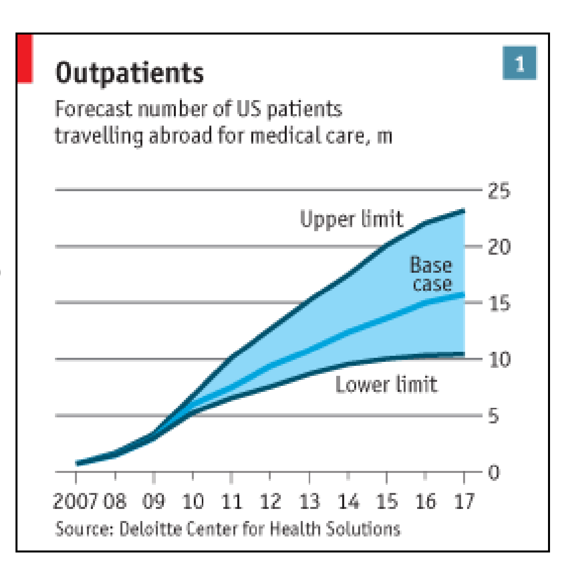
Central to the plot is the story of Maria Hernandez, a working-class American woman who travels to Delhi to get a hip replacement she could not afford back home. Alas, she and other medical tourists die in mysterious circumstances. Contrast Ms Hernandez’s fate with that of another American health tourist, Robin Steele. Mr Steele, a real patient, recently went to India’s Wockhardt hospital chain for a heart operation. Not only is he in fine shape, but he also enjoyed a holiday afterwards and saved several thousand dollars to boot.

Mrs Hernandez’s tragedy may sell books, but Mr Steele’s good health is more typical. The future of health care, long one of the most local of all businesses, promises to be increasingly global. Over the next few years the world is likely to see a lot more investment, medical staff and patients crossing borders—bringing economic benefits and greater access to care as they do so. Even a modest surge in global medical tourism could prove a powerful catalyst for government bureaucracies and sclerotic American health-maintenance organisations to think afresh about what they do. It may even introduce competition to private health care in America and elsewhere.

Globalisation is not new to medicine. The outsourcing of record-keeping and the remote transcription of doctors’ notes and X-ray analysis are becoming common. Jagdish Bhagwati, an economist at Columbia University, thinks that the offshoring of, for instance, customer service and claims-processing could save America alone $70 billion-75 billion a year. In recent years leading American hospitals such as the Mayo Clinic and Johns Hopkins have set up offshoots in the Middle East and Asia.

Some wealthy patients have always travelled for fancy medical care. Denis Cortese, head of the Mayo Clinic, in rural Minnesota, observes that “we have been global for a hundred years.” A few years ago Britons fed up with waiting for elective surgery started heading overseas to get joints replaced or cosmetic surgery—sometimes at government expense. Recently, shorter queues in the National Health Service and restrictions on reimbursements

have undermined this trend.



However, globe-trotting patients only ever occupied a niche. What is getting people excited today is the promise of a boom in mass medical tourism, as a much bigger group of middle-class Americans prepares to take the plunge. A report published last month by Deloitte, a consultancy, predicts that the number of Americans travelling abroad for treatment will soar from 750,000 last year to 6m by 2010 and reach 10m by 2012 (see chart). Its authors reckon that this exodus will be worth $21 billion a year to developing countries in four years' time. Europe's state-funded systems still give patients every reason to stay at home, but even there, private patients may start to travel more as it becomes cheaper and easier to get treated abroad.

Pills and pils

Asian hospital chains stand to be the biggest winners, as their rising stars, such as Singapore's Parkway Health, look for foreign patients. Thailand's modern Bumrungrad hospital in Bangkok already sees tens of thousands of Americans a year. It has just opened a new extension, designed to handle 6,000 foreign patients, which it claims makes it the world's biggest private clinic. The surge of American patients flocking to India's Wockhardt hospitals has convinced Vishal Bali, the chain's boss, that medical travel is now "truly reaching an inflection point."

Not everyone is as gushing. Paul Mango, the chief author of a report by McKinsey, a management consultancy, disputes wild-eyed claims that millions of patients are already travelling abroad. Yet even he predicts that the future for medical travel is bright, and that in the long run it may even "largely dispel the idea that health care is a purely local service."

Regina Herzlinger, of Harvard Business School, broadly agrees: "The medical travel market is a bit over-hyped today, but economics dictates why it will become huge over time: if a supplier has very high prices and erratic quality, it creates an opening for nimbler rivals." That supplier is America's health-care system, a $2.4 trillion colossus in desperate need of reform.

This prospect of an American-led boom in global medical travel raises two questions. Why is it happening now? And what will be the effect on the health-care systems of poor and rich countries?

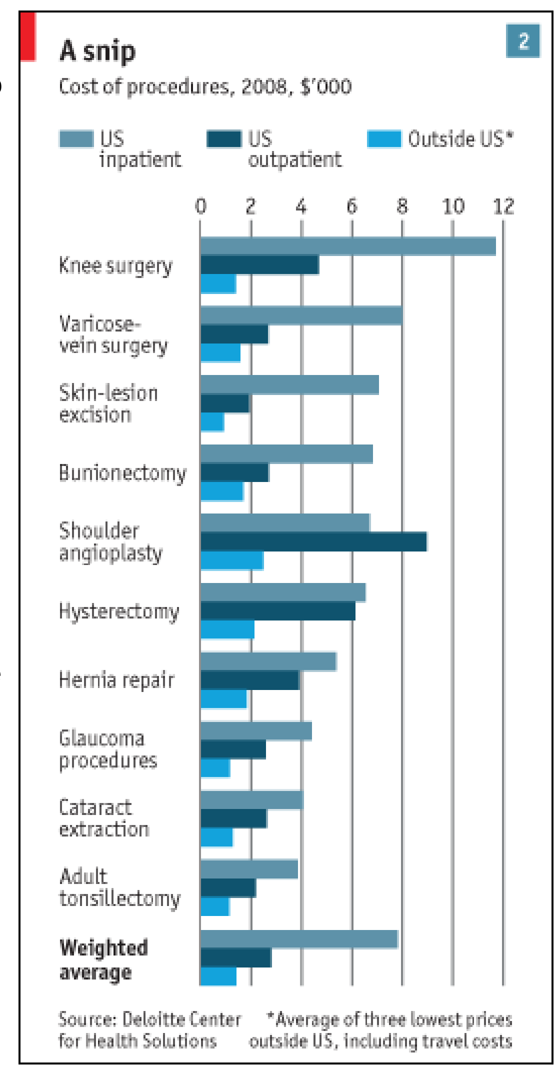
Impatients

Until recently, few Americans went abroad for medical treatment. Over the past decade, however, that has begun to change. Americans seeking medical care are increasingly making trips far from home, often at their own expense—not just short hops to Caracas for a nip and tuck or dashes across the *frontera* for cheap Mexican pills. As Mr Steele's testimonial suggests, they are now travelling across the world for knee and heart surgery, hysterectomies and shoulder angioplasties.

One motive is to save money. America's health inflation has consistently outpaced economic growth, making it the most expensive health market in the world. The average price at good facilities abroad for a range of common medical procedures is, by Deloitte's reckoning, barely 15% of the price a patient would have to pay in the United States (see table).

But costs have long been much higher in America than in poor countries, so this alone does not explain the new exodus. Two other factors are now at work. One is that the quality at the best hospitals in Asia and Latin America is now at least as good as it is at many hospitals in rich countries. The second, more worrying, factor is that America's already imperfect insurance safety net is fraying.

Over 45m Americans are uninsured, and many millions more are severely underinsured. Such people may find it cheaper to fly abroad and pay for an operation out of their own pockets than to find the money for deductibles or "co-payments" charged for the same procedure at home. Arnold Milstein of Mercer, a consultancy, calls them America's "medical refugees".



Big business may soon join this wave. Epstein, Becker & Green, an American law firm, says that in the past year big employers have become interested in promoting medical travel among the employees they insure. Many are struggling to cope with soaring health costs and some, they report, are willing to take radical steps to save money.

Hannaford, a grocery chain based in New England, now offers its 27,000 employees the option of getting a number of medical procedures done in Singapore rather than America—at a saving to the employee of $2,500-3,000 in co-payments and deductibles. Blue Ridge Paper Products, a firm in North Carolina that makes milk cartons, also offered employees the option of medical travel, but a backlash from a union has put a stop to the plan. Despite that setback, the general rise in corporate interest is such that in June the American Medical Association, the chief lobbying group for the country's doctors, issued (surprisingly supportive) guidelines for foreign medical travel.

That has emboldened insurance firms, which had thus far been cautious. A few are beginning to offer voluntary "global medical travel" options on their corporate plans. According to the industry watchers at Epstein Becker, other insurers fear that they may be at a disadvantage if they do not offer such schemes.

Overcoming initial scepticism, Aetna, a giant American insurer, has this year launched a pilot scheme in partnership with Singaporean hospitals. Charles Cutler of Aetna notes that the savings for his firm are not as great as they may be for some others, since it gets volume discounts from American hospitals thanks to its size. Therefore travel abroad for Aetna's clients makes sense only for procedures costing $20,000 or more, which might include heart surgery. But he remains bullish, observing that quality at the best foreign facilities can be much better than at the average American hospital, thanks to greater transparency and better information technology. He thinks this is inspired by the Asian hospitals' need to market to a sceptical foreign audience.

David Boucher of Blue Cross and Blue Shield of South Carolina, another big health insurer, at first doubted the quality of care abroad. So he visited Thailand's Bumrungrad hospital a couple of years ago to see for himself. He recalls sipping coffee at the Starbucks in the hospital's lobby and thinking that "this is not a straw-village clinic with rusty scalpels!" He has persuaded his firm to let him run a division, called Companion Global Healthcare, to pursue this "blue ocean" opportunity.

Mr Boucher says his division's customers, mostly manufacturers and other firms with margins that are squeezed by global competition, are keen to experiment with an idea that he reckons could easily replace 5-8% of a company's health spending with cheaper options; in time, he reckons that share may rise to a fifth. Medical travel may be unfamiliar to individual patients, but he points out that thinking globally is nothing new to his corporate clients: "They may be based in Columbia, South Carolina, but they have competitors and customers in Colombia, South America, as well as in South Africa and in Asia."

Curtis Schroeder, boss of Bumrungrad, thinks the search for value will push people in his direction: "After all, we're selling Cadillacs at Chevy prices," he says. He has good reason to beam: some 33,000 Americans came to his outfit last year alone.

Behind the mask

How will that affect the health systems in rich and developing countries? Listen to critics of medical travel, and you might think that all of this is a tragedy. It has come about, they argue, because of the terrible

state of America's health care, and its consequences for developing nations will be dire. The flow of foreigners will encourage capital and trained staff to flee state-run health-care systems in poor countries in favour of better-paying jobs catering to foreigners and local fat cats.

It is surely right that medical tourism is partly the result of the failings in America's health system. Moreover, recent research by the World Bank does indeed suggest that "internal brain drain" is a worry in some countries, especially those with few doctors and nurses.

However, in many huge net exporters of doctors and nurses, such as India and the Philippines, an internal brain drain is hardly much of a worry, because there are plenty of medics to go around. And shortages, in countries where they exist, can be alleviated by reforms changing the way nursing education is funded, for instance, that would help to improve their ailing state-run health systems.

A good prognosis

What is more, there are good reasons for thinking that medical tourism will help poor countries. For one thing, private hospitals did not cause the state sector's neglect of the poorest. Long before medical tourism or private hospitals took off, the state-run hospitals of India and most other developing countries were a shambles. This was chiefly the result of bureaucratic incompetence and corruption, not poverty—as the decent health-care systems in other developing countries like Costa Rica, Malaysia and even Cuba make clear.

Besides, the rising standards at private facilities promise to have important knock-on effects that may benefit even the poor. The World Bank has observed that the rise of high-quality private clinics in Trinidad and other parts of the Caribbean, for example, has encouraged highly educated doctors to return home.

Mr Bali has seen this reverse brain drain at work in his own company. In the past few years, more than two dozen top doctors returned to India from Britain and the United States, he says, because his firm offers them world-class facilities and rewarding work. He rejects the notion that only a handful among the elite benefit from his chain's excellence, pointing out that Wockhardt's expansion into second and third-tier cities in India means many ordinary people now have ready access for the first time to such specialisms as cardiac care and orthopaedics.

Standards, as a result, are rising. Several decades ago very few hospitals in poor countries could claim to offer the highest quality of heath care. Today, there are dozens of hospitals around the world that meet the stringent requirements for accreditation by the respected Joint Commission International, a non-profit outfit that assesses the quality and safety of health-care programmes. Indeed, gaining the commission's seal of approval has become a price of entry into the serious market for global medical travel.

Jonas Bergstrand

Tom Johnsrud of Parkway Health, a big Singaporean hospital chain with operations in Brunei and China, explains that foreigners make up 35-40% of his firm's patients: "American patients will not make or break any international hospital, but being able to attract them will enhance its reputation." So although hospitals may raise standards to attract foreigners, local patients will benefit too.

Some international hospitals may even leapfrog over their American counterparts. The best of the bunch are being created from the ground up, without the burden of old buildings and equipment, politicised unions and other baggage that weighs down American hospitals. When Bumrungrad looked for information technology to run its operations a decade ago, it found that vendors were so wrapped up in the arcane and fragmented ways in which rich-country firms do business that they could not manage to design a complete computer system from scratch.

Undaunted, the firm set about the job itself, using best practice from other industries. This was possible, says Mr Schroeder, because his firm's edge is not only based on cheap labour, though labour costs make up 18% of his total, compared with perhaps 55% at American counterparts. He says, "the bigger difference is the way health care is delivered."

The firm's IT proved so much better than that from American or European

specialist firms that Microsoft last year took over Bumrungrad's Global Care Solutions division. Peter Neupert, who heads the American software giant's efforts in this area, was so impressed that he has decided to put the headquarters of his international health efforts in Bangkok. This leapfrogging is an example, he says, of how "innovation will come from many places as the health-care market goes global and flat very fast."



Costectomy

As far as America is concerned, there will be limits to the impact of health tourism. Many medical procedures cannot be done abroad safely, concerns about legal liability and malpractice will always linger, and the medical lobby may yet try to blunt this trend. Bumrungrad's Mr Schroeder argues that his hospital is "not the solution for America's health-care problem."

He is right that health care abroad is not a substitute for difficult reforms at home. But medical travel could serve as a catalyst for those reforms. Rajesh Rao of IndUSHealth, a middleman that helps insurers and employers co-ordinate medical care in India, reckons medical travel "is not really about exporting patients, it is importing competition."

A bit of rivalry from top foreign facilities may introduce transparency and price competition into an inefficient system riddled with oligopolies and perverse incentives. For example, American and European hospitals may cut prices once they realise how much potential business they stand to lose. By Deloitte's reckoning, medical travel will represent $162 billion in lost spending on health care in America by 2012. There are signs that American health-care administrators are starting to feel the heat. European hospitals may not be immune from such pressure, either. On one estimate, some 50,000 British medical tourists headed overseas in 2006, spending millions of pounds for care in such places as Turkey, India and Hungary.

Aetna's Charles Cutler confirms that hospital authorities are now "very aware of the competitive threat," from abroad. The case of Hannaford, the New England grocer, has already prompted local hospitals to reconsider their pricing policies. Christus Health, a health-care provider in the American southwest, has hedged its bets by buying Muguerza, a hospital chain based in northern Mexico, and is now touting its own medical tourism schemes there. And its boss, Thomas Royer, says that his firm is about to expand further, into Peru.

Medical tourism promises to be what Aetna's Dr Cutler calls "a disruptive market force that improves cost and quality here in America." Whether or not it turns out to be all its boosters wish for, it will be a force to be reckoned with.

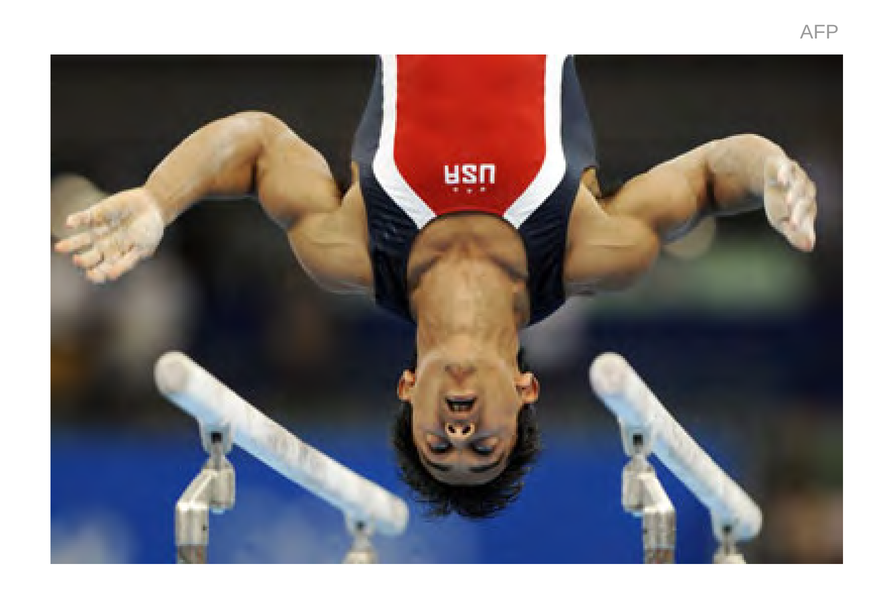
The global economy

Rebalancing act

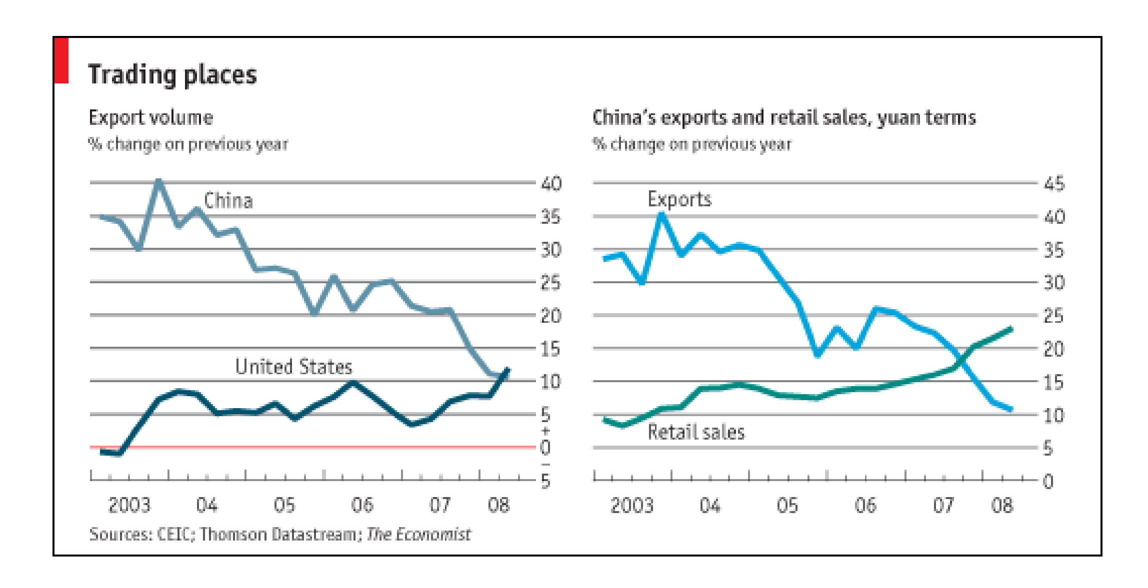
Aug 14th 2008 | HONG KONG
From The Economist print edition

America's exports are now growing faster than China's, helping to reduce the strains in the world economy

AFP



OVER the past decade, the world economy has been plagued by widening imbalances, most notably America's current-account deficit and China's surplus—both the largest in the world. There is not much to celebrate about the world economy at present, but at least it is becoming more balanced. Not only are trade gaps in America and China shrinking, but the composition of growth within countries is also looking healthier.



For the first time in years, China's exports are growing more slowly than America's. In the 12 months to June (the latest month available for both countries), America's exports grew by 23%, well ahead of China's 17% (in dollar terms). Export volumes show a similar trend. China's rose by 11% in the year to the second quarter, while America's climbed by 12% (see left-hand chart). Stephen Green, an economist at Standard Chartered, expects China's real export growth to fall to zero by the end of this year and to turn negative next year.

In July China's exports surged a mighty 27% from where they were a year before, but this does not alter

the picture much. China's monthly trade figures are notoriously volatile and if exports are converted into yuan—the currency which matters for China's GDP growth—growth has fallen sharply to an average of 12% in the past three months, from 35% in early 2005. Meanwhile, import growth has quickened over the past year, due in part to higher oil bills. As a result, China's trade surplus in yuan terms in the first seven months of this year was almost 20% smaller than in the same period of 2007. Even in dollar terms it had fallen by 10%.

That is not to say that there will be a sharp drop in China's current-account surplus this year. In dollar terms, it is likely to remain roughly as big as in 2007 because higher income from its vast foreign assets will offset the smaller trade surplus. But as a share of GDP, it will shrink sharply because China's economy is expanding so rapidly. Mr Green forecasts a current-account surplus of 9% of GDP in 2008 and 7% in 2009, down from 11.3% last year. Thus China will be able to claim that its surplus has fallen sharply, even as its critics, in America and elsewhere, will continue to argue that it has barely budged in dollar terms. No one can dispute, however, that China's exports are growing much more slowly than its economy (which is galloping along at 20% in nominal yuan terms). This is occurring at the same time as America's export machine has revved up, which is bound to help trade imbalances unwind.

Turning to America, so far the decline in its total trade deficit has been modest, because of the higher cost of oil imports. But the underlying improvement is more impressive. Excluding oil, the trade deficit has fallen by almost one-quarter since 2006. At the same time as exports have soared, real imports fell by 2% in the year to the second quarter, dragged down by weak domestic demand. If the recent drop in oil prices is sustained, the total trade deficit will shrink more rapidly in the second half of this year than it did in the first half. Meanwhile, America's overall current-account deficit has fallen to around 5% of GDP from a peak of 6.2% in the third quarter of 2006. Merrill Lynch forecast that it could drop to around 3.5% of GDP in 2009.

Bilaterally, it is the same story: America's exports to China were 20% higher in the first half of the year compared with the same period in 2007, while its imports from China were up only 4%. However, America's import bill for goods from China is so huge—four times that of exports—that the rising exports have not dented America's overall trade deficit with China. The changing patterns, buried beneath the headline figures, are very hard to spot.

All hail China's Olympian shoppers

What has caused the shifts? The cheaper dollar is one factor; until its rebound this summer, it had lost about a quarter of its value on a real trade-weighted basis since its peak in 2002. That not only made American exports more competitive, it made imports into America less attractive. Probably of more importance, though, are the shifts in domestic spending. America's real domestic demand has stagnated over the past year, whereas China's has risen by 10% as its citizens have picked up the baton from flagging American consumers. In dollar terms, which better measure China's ability to buy imports, its domestic spending has soared by a whopping 33%.

Global rebalancing requires a redistribution of growth within countries as well as a redistribution between countries. Until last year, America's growth was driven by an unsustainable consumer boom; now it is being supported entirely by external demand. Without the boost from net exports, real GDP would have fallen since the third quarter of 2007.

Meanwhile, in China consumer spending is now growing faster than exports (see right-hand chart). Retail sales jumped by 23% in nominal terms in the year to July, and 16% in real terms. Dragonomics, a Beijing-based research firm, estimates that consumption contributed two-thirds of China's GDP growth in the first half of 2008, up from 44% in 2007.

In America weak consumer spending is likely to continue to dampen imports over the next year or so. Auguring tougher times ahead, the country's retail sales in July fell for the first time in five months. Less clear is how strong America's export performance can remain, given the recent rebound in the dollar and slower growth in the rest of the world.

The greenback remains cheap by many measures and so should continue to support America's sales abroad. Slower growth elsewhere in the world is a more serious concern. Japan's economy fell by an annualised 2.4% in the second quarter, figures released on August 13th showed, after growing strongly in the first quarter. Growth in the euro area also seems to have come to an end. But these two places account for only about 20% of America's exports; much more important are emerging economies which now buy more than half of its exports.

Economic growth in developing countries is likely to slow over the coming year. But what matters far more for American exports is the growth in their domestic demand and hence their appetite for imports. Goldman Sachs forecasts that real domestic demand in the four BRIC countries—Brazil, Russia, India and China—will grow by over 9% next year, roughly the same as in 2007 and 2008. If so, this will be good for American exporters.

For all the improvements, trade imbalances are still too big. It is worrying that since mid-July China has stopped allowing the yuan to rise against the dollar; indeed, the currency has since fallen by 1%. China has also increased some tax rebates for exporters. Brad Setser, of America's Council on Foreign Relations, a think-tank, argues that if China tries to bolster its GDP growth by supporting exports, it will hinder global rebalancing. Instead, with surpluses in its budget and current-account, China should prop up growth by further stimulating domestic demand. That means increasing spending on infrastructure, schools and health care.

To be fair, the yuan has not fallen in trade-weighted terms over the past month, but it is still undervalued and needs to rise further. Mr Setser reckons that given high oil prices and sluggish American demand, China's trade surplus should already have fallen by more. Likewise, one might argue that without big tax cuts to prop up consumer spending, America's deficit would have shrunk further. If global rebalancing is to continue, America still needs to save more, and China to save less.

A film about debt

Another inconvenient truth

Aug 14th 2008 | NEW YORK
From The Economist print edition

Fiscal Armageddon, coming to a cinema near you

AP



AMERICA'S infamous debt clock, near New York's Times Square, was switched off in 2000 after the national burden started to fall thanks to several years of Clinton-era budget restraint. However, it was reactivated two years later as the politically motivated urge to splurge once again took over. The debt has since swollen to $9.5 trillion, with the value of unfunded public promises (if you include entitlements such as Social Security and Medicare) nudging $53 trillion—or $175,000 for every American—and rising. On current trends, these will amount to some 240% of GDP by 2040, up from a just-about-manageable 65% today.

David Walker, who until recently ran the Government Accountability Office, has made it his mission to get the nation to acknowledge and treat this "fiscal cancer". His efforts form the core of a new documentary, "I.O.U.S.A.", out on August 21st. The message is simple enough: America's financial condition is a lot worse than advertised, and dumping it on future generations would be not only economically reckless but also immoral.

The biggest deficit of all, the film contends, is in leadership: politicians continue to duck hard choices. It hints at dark consequences. As America has become more reliant on foreign lenders, it warns, so it has become more vulnerable to "financial warfare", of the sort America itself threatened to wage on Britain, a big debtor, during the Suez crisis. Warren Buffett, America's investor-in-chief, pops up to warn of potential political instability.

The film is part of a broader effort to popularise the issue. In 2005 Mr Walker set off on a "fiscal wake-up tour" of town halls; sparsely attended at first, it now attracts hundreds to each meeting (though some may be turned off by the giant pie chart strapped to the side of his tour van). The young are being drawn in too, even forming campaign groups; Concerned Youth of America's activists "crusade against our leveraged future" wearing prison suits. Mr Walker is talking to MTV, a music broadcaster, about a tie-up. His profile has been lifted by a segment on CBS's "60 Minutes" and an appearance on "The Colbert Report", a satirical TV show, which dubbed him the "Taxes Ranger".

Promisingly, the new film was well received at the Sundance Film Festival. Some even wonder if it might do for the economy what Al Gore's "An Inconvenient Truth" did for the environment—perhaps with this comparison in mind, Mr Walker and his supporters talk of a "red-ink tsunami" and bulging "fiscal levees". But, unlike the former vice-president, he is no heavy-hitter. And, even jazzed up with fancy graphics, punchy one-liners and a splash of humour, courtesy of Steve Martin, tales of fiscal folly are an acquired taste. Still, "I.O.U.S.A" is a bold attempt to highlight a potentially huge problem. "The Dark Knight" it may not be, but for those who care about economic reality as much as cinematic fantasy, it might just be the scariest release of the summer.

Auction-rate securities

Kicked in the ARS

Aug 14th 2008 | NEW YORK
From The Economist print edition

Once again, banks are buckling under pressure from an attorney-general

“LIKE a Moroccan bazaar” was how William Galvin, Massachusetts’s secretary of state, described the market for auction-rate securities (ARS), whose collapse has left thousands of investors stuck with debt they had assumed they could easily sell. But there is a difference. Getting a stallholder in Fez to take back damaged goods is a tall order. Banks, on the other hand, have moved quickly under pressure to buy back the paper they flogged, in what looks like the biggest-ever forced bail-out of Main Street by Wall Street.

In normal markets, auction-rate debt looked highly seductive. With the interest rate reset weekly or monthly in auctions, cities, student-loan trusts and the like could issue long-term debt while benefiting from lower short-term rates. Buyers got a near-cash product that paid higher yields than money-market funds. Brokers typically creamed off up to 0.25% of a market that swelled to $330 billion by last summer. When demand began to subside late last year, dealers bought the debt themselves to prevent auctions from failing. But most pulled out in February as the failures became endemic. New York’s Andrew Cuomo and other attorneys-general took up the cudgel—in an echo of Eliot Spitzer’s post-dotcom crusade. UBS, Citigroup and Merrill Lynch have agreed to buy back more than a combined $41 billion of ARS and pay at least $250m in fines. JPMorgan Chase and Morgan Stanley were reportedly close to a settlement on August 13th.

The banks cannot claim to be wholly innocent. At best, they were not completely honest with clients about the need to prop up the market. State officials have unearthed some embarrassing e-mails. One indicates that a Merrill Lynch researcher was told to soften a report on the dangers in the ARS market. The head of UBS’s auction-rate desk offloaded his personal holdings of ARS even as the bank was selling the product to clients.

But did mis-selling take place on a grand scale? Bankers say they supported the market not to deceive investors but in the belief that they could keep it afloat until it recovered. They took their lumps themselves: UBS’s holdings of auction-rate debt almost doubled, to $11 billion, between December and February. “We genuinely misread the market,” says one banker. To some, Mr Cuomo’s aggressive stance has more to do with political ambition than financial fairness.

Moreover, the risks were disclosed. Marketing documents spelled out the possibility that auctions could fail, and that dealers were not obliged to step in on clients’ behalf. Many of the 100,000 or so retail investors were well-to-do types and thus clued up enough to understand that higher yields suggest higher risk. Some clearly displayed “credulity bordering on avarice”, says James Cox, a law professor at Duke University. Many clung to their paper despite having several turbulent months to cash out.

The settlement terms are certainly harsh. Not only must the banks reimburse all retail investors, but they will also offer interest-free loans to those who are short of cash in the meantime. Controversially, the states are also pushing for relief for some institutional investors, such as pension funds. That raises troubling questions about bailing out sophisticated buyers—especially since the problem was a lack of liquidity, not a flaw in the product itself.

The direct cost to the banks is manageable, since the paper they are taking back has a value. UBS, for instance, expects the hit to be less than $900m, small beer compared with its write-downs so far. But taking debt back onto their balance-sheets will leave banks even more strapped for capital, and even less eager to lend.

Nor is this the end of their legal woes. The strained Alt-A mortgage market alone is worth some $2 trillion. Grace Lamont of PricewaterhouseCoopers, a big accounting firm, thinks banks’ shareholders could even start to sue them over moves such as the ARS buy-back. No wonder that, as one lawyer puts it, bankers are “almost starting to yearn for the Spitzer era.”

The Shanghai Stock Exchange

Re-enter the dragon

Aug 14th 2008 | HONG KONG
From The Economist print edition

After almost 70 years, Shanghai's stock exchange is reopening to the world

Illustration by S. Kambayashi



FROM the 1860s until the Japanese invasion of China in 1941, Shanghai's bustling stockmarket listed not only domestic companies but also foreign firms, such as those now known as HSBC and Standard Chartered Bank, which operated out of the international concession. When trading resumed in 1992, only domestic firms could list. But many foreign ones have been eager to join them, and after a change in securities laws announced on August 6th, some may now have the chance.

The New York Stock Exchange (NYSE) hopes to be the first foreign firm to list in Shanghai, and may have the blessing of the regulators, according to Chinese press reports. But there is competition. HSBC and Standard Chartered are also reportedly angling to return, and other big banks have put out feelers.

Had the opening come in 2007 when the Shanghai market was riding a wave of euphoria for much of the year, the motivation for a listing by any Western company would have been self-evident: money—and lots of it. Conditions, however, have nosedived. Corporate profits may have risen since but share prices are down by half, and there is little appetite left to provide capital to domestic companies.

The first foreign firms to list may be luckier, however, because they offer Chinese investors a rare opportunity to diversify into non-Chinese shares. With lower portfolio risk, local investors would also theoretically be able to pay more for Chinese companies, says William Goetzmann, a professor at Yale University who has published a rare paper on the pre-war ties between China's financial markets and the rest of the world.

For the newcomers, there would be many potential benefits including, above all, in marketing themselves to the Chinese. For example, just as a listing by the NYSE would confer some status on Shanghai, so would it also encourage Chinese firms to use New York's main exchange as their market of choice. (The big state-owned ones have largely ignored the Big Board since a listing in 2003 by China Life, an insurance firm, was met by a barrage of American lawsuits, partly because of poor disclosure.) The NYSE's own members may also find it easier to list in China. As a fringe benefit, it may be able to sell China its trading technology. For other companies, the shares issued in China could be used as a form of currency

to provide performance-linked pay to local employees, as well as to buy Chinese companies.

But there are pitfalls. Exchange rules may permit the Chinese authorities to attend the board meetings of listed companies, something that might not bother the NYSE, which does not face competition from Chinese exchanges in its home markets of Europe or America, but would probably horrify a global bank. More importantly, the financial barriers that surround China's economy, such as its closed capital account, restrictions on currency trading, and prohibition on short-selling, mean that shares in China trade at different prices from those with identical rights listed on other overseas exchanges.

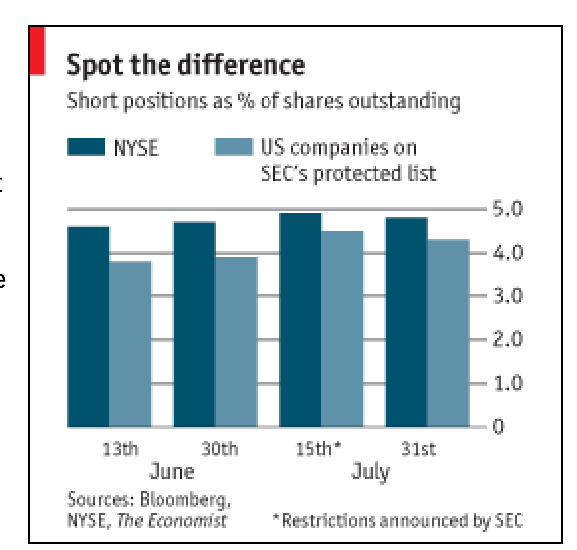
That kind of trading inefficiency looks bad for China and would be an embarrassment for the NYSE, which prides itself on its ability to price shares cleanly. To solve it, the potential entrants are considering how to issue other types of shares known as depository receipts—but that is complicated by China's trading and capital restrictions. To find a solution, they may have to help China to liberalise its financial markets even further. That would not only benefit the foreigners, but China too—which is probably the main reason it is courting them in the first place.

Short-selling

Phantom menace

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From The Economist print edition

An SEC campaign backfires



NOT all short lists are worth being on. The Securities and Exchange Commission (SEC) announced rules on July 15th to restrict short-selling of 19 financial stocks. Many suspected that America's market regulator wanted to resuscitate the shares of these firms, especially those of Lehman Brothers, an investment bank, and Fannie Mae and Freddie Mac, two quasi-official mortgage agencies. The temporary regime, which expired on August 12th, banned naked short-selling—the sale of shares one has not yet borrowed. The SEC also indulged in some blood-curdling rhetoric against market "manipulation". From a simplistic perspective, its actions worked. The market value of the nine American companies on the list rose by 30%, after adjusting for capital raisings.

Yet on closer examination the picture is very different. The 19 stocks have not outperformed their peers. Nor did the SEC's action result in hordes of dishonest short-sellers scurrying to cover their positions by buying shares. Far from it. As the chart shows, for the nine American firms on the list, aggregate short positions fell only slightly: from 4.5% of shares outstanding on July 15th to 4.3% on July 31st. (For the market overall, short positions represent about 5% of shares outstanding). The net change represented an insignificant part of trading activity in these stocks over the 17-day period.

The SEC's action was not only pointless; it may have had a perverse impact. Arturo Bris, a professor at IMD Business School in Switzerland, points out that the 19 stocks had higher risk profiles than their peers, so should have bounced back more strongly than they did. He also reckons trading in the 19 stocks became less efficient. Their prices took longer to react to bad news than other firms', perhaps reflecting the red tape that short-sellers faced under the regime.

The SEC has promised a post mortem of its experiment. At this stage the conclusion looks pretty clear: the regulator picked the wrong target.

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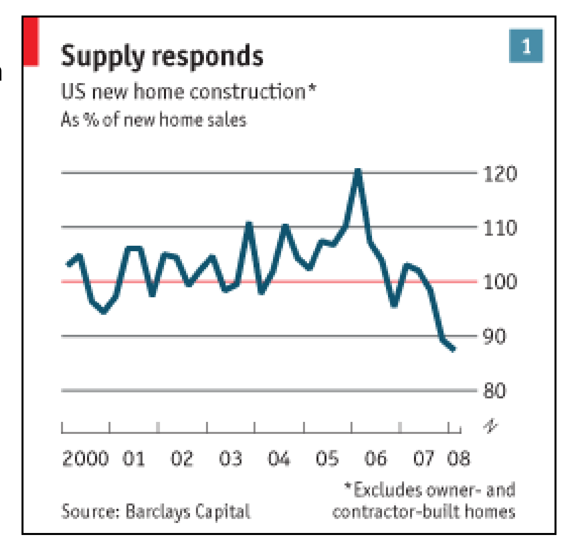
American housing 1

Home economics

Aug 14th 2008
From The Economist print edition

Behind the housing gloom is an improving backdrop

THE American housing market has deteriorated so sharply in the past two years that it is easy to fall prey to profound pessimism. Recent weeks have brought yet more bad news. To protect their thin capital, Fannie Mae and Freddie Mac, the big mortgage agencies, said they would limit the volume of new mortgages that they buy. JPMorgan Chase announced $1.5 billion in mortgage-related write-downs and gave warning of worsening housing conditions. Meanwhile, the Federal Reserve found that mortgage-underwriting terms were tightening by the greatest extent since the early 1990s.



Amid the despondency, however, supply and demand are moving towards balance. Sales of new homes, which had plunged nearly 60% from their average level of 2005, have been stable since March. Sales of existing homes stopped falling last autumn. Julia Coronado of Barclays Capital says that construction of homes built for sale, not counting units that already have a buyer, had dropped to 13% below the level of new-home sales in the first quarter (see chart 1). She thinks second-quarter data, due out on August 19th, will show the gap growing to 18%. That is why the inventory of unsold homes, though still near recent highs relative to monthly sales, has fallen sharply in absolute terms.

By the standards of previous cycles, residential construction should be nearing the bottom. Karl Case, a housing expert at Wellesley College and one of the creators of the S&P/Case-Shiller home-price indices, notes that in three previous housing cycles, residential investment peaked at about 5.5% of GDP and hit bottom at around 3.5%. In the latest cycle it peaked at 5.5% in 2006 and by the second quarter had fallen to 3.1% of GDP, below the troughs of 1975, 1982 and 1991. He does not expect much rebound. But like hitting yourself with a hammer, house building need only stop falling for the economy to feel better. Most forecasters expect construction to fall further in coming quarters but since that will be from a shrinking base, the impact on overall economic growth will diminish.

Finally, since home prices have dropped about 18% from their mid-2006 peak (based on the S&P/Case-Shiller composite of 20 cities) and incomes have steadily grown, homes are returning to more typical levels of affordability in some regions. Mr Case estimates that in Los Angeles, the ratio of home prices to annual income per person doubled from 2001-06 to 16, and has since fallen to 11. In Boston, it rose from nine to 12, and has since fallen back to nine.

There are numerous caveats, however. First, the scale of the housing boom means history is a flawed guide to how big a retrenchment is in store. As Mr Case succinctly puts it, “We really overdid it.” David Seiders, chief economist at the National Association of Home Builders (NAHB) in Washington, DC, thinks that in normal times, 3.6% of America’s housing stock—including owner-occupied homes, rental units and builders’ inventory—should be vacant. The figure is now 4.8%. That translates into 1.5m “excess” vacant units, one reason Mr Seiders thinks construction is going to keep falling until the second quarter of next year.

Some believe that with banks and other lenders dumping huge numbers of foreclosed homes, prices could fall well below equilibrium. That is debatable. A recent paper by Charles Calomiris of Columbia University and Stanley Longhofer and William Miles, both of Wichita State University, argues that foreclosure sales will impact prices less than commonly thought. They examined state-level data from 1981 to 2007 and found that even large increases in foreclosures have only a small marginal impact on prices, perhaps because they occur late in the cycle when the supply of newly built homes is shrinking.

Most serious is the prospect of a further squeeze on credit. The fate of the mortgage market has increasingly rested on the shoulders of Fannie Mae and Freddie Mac, as well as Ginnie Mae, their wholly government-owned counterpart. But they may not have much more staying power; last month, their issuance of mortgage-backed securities plunged by 41% from June, according to *Inside Mortgage Finance*, a newsletter (see chart 2). Even if Fannie and Freddie's capital constraints do not stop them guaranteeing mortgages, they have tightened their underwriting terms. Banks, which lack capital themselves, are passing these tighter terms on to customers. Mortgage rates have risen by half a percentage point since early June.

This has left both optimists and pessimists pinning hopes for a rebound on the federal government. Last month's housing-rescue law offers up to $7,500 to first-time homebuyers, a feature that the NAHB has been heavily promoting. The law also made the government's implicit backing of Fannie and Freddie explicit, if necessary by injecting capital into them. Ms Coronado admits her optimistic case goes out of the window if the two firms can no longer do their job. Which is why, she says, the government will ensure that they can.

American housing 2

Ticking time bomb

Aug 14th 2008
From The Economist print edition

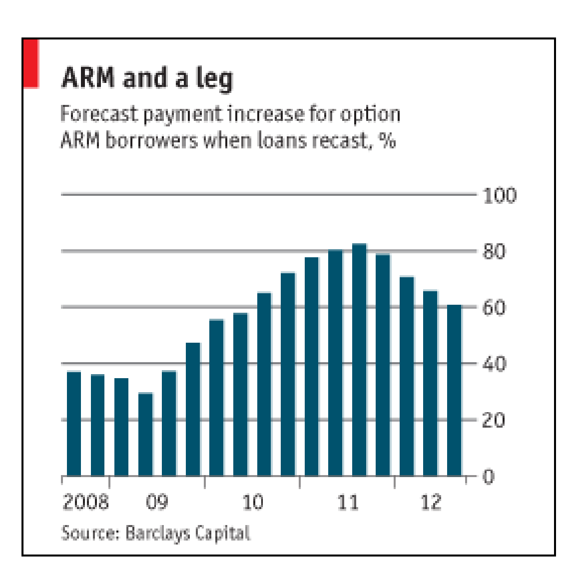
A nasty mortgage product promises yet more misery

OPTIMISTS, look away now. Prices in America's housing market may have slumped, but the pain for a significant subset of homeowners has barely begun. Even at Barclays Capital, which spotted some of the improvements mentioned in the previous story, there is still concern. The bank's Nicholas Strand says that roughly 1.4m households, most of them in California, hold a particularly nasty type of adjustable-rate mortgage called the "option ARM". Although the overall value of option ARMs is lower than that of subprime loans—some $500 billion, according to Mr Strand, compared with about $1 trillion in subprime loans—their sting is more venomous.

The option ARM allows borrowers to pay less interest than the formal rate for a limited period (the vast majority of customers choose this option). In return, the unpaid interest is added to the original loan, a process soothingly called "negative amortisation". While house prices are rising, the product just about makes sense. If borrowers do get into trouble when they start paying off the loan in full, higher property values offer some wiggle-room. But when house prices are falling and refinancing is difficult, as is now the case, the option ARM is the financial equivalent of a bikini in winter. Homeowners end up owing more on a property that is worth less.

Delinquencies are already rising fast. Write-offs for option ARMs at Washington Mutual, a stumbling thrift, have zoomed from 0.49% in the last quarter of 2007 to 3.91% in the second quarter. But the real crunch will come when the mortgages "recast", forcing borrowers to start making full payments. The loans recast after a set period (typically some five years after origination) or when the principal hits a predetermined ceiling. The biggest wave of recasts is due to happen in 2010 and 2011. By some estimates, borrowers' monthly payments will then surge by 60-80% (see chart), at a time when property values may still be at, or close to, their trough.

Rating agencies were unusually alive to the dangers of option ARMs: they demanded more collateral to protect holders of securitised-mortgage bonds. Banks were slower to wake up to the danger. An option-ARM product called Pick-a-Pay (a name that gave fair warning it could lead to trouble) accounts for 45% of consumer lending at Wachovia, a large bank. Wachovia stopped originating loans that allow negative amortisation in June, and is setting aside heftier reserves to cope with expected losses. It has also waived prepayment penalties for existing product-holders and is marshalling its employees to help move these customers on to conventional mortgages. Such efforts are welcome. But they also signal just how protracted America's housing woes are likely to be.



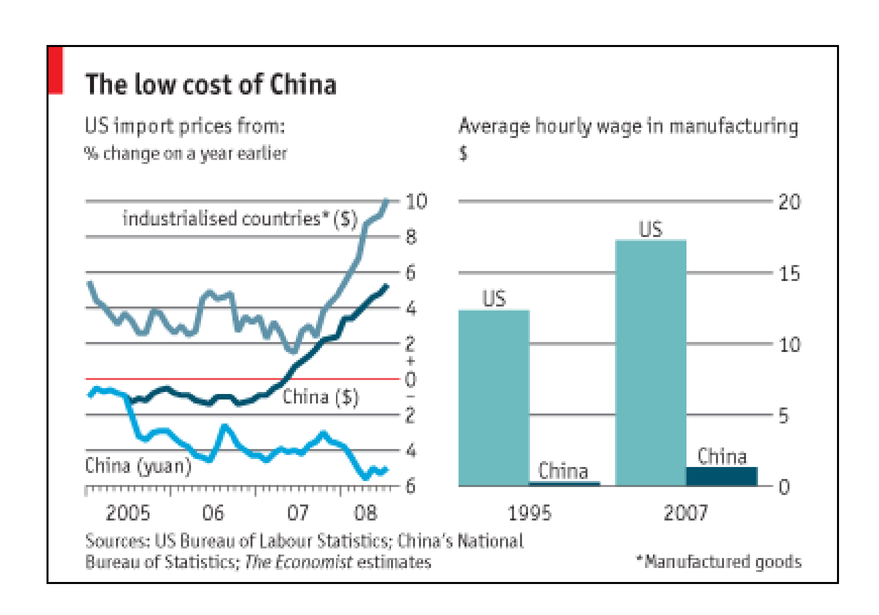
Economics focus

Inflated claims

Aug 14th 2008
From The Economist print edition

Why China is not to blame for the surge in global inflation

MANY people in America and Europe think that the recent surge in inflation, like almost everything else these days, is “made in China”. For a number of years, cheap Chinese goods helped to reduce prices in rich economies, but more recently wages and prices have surged in China. On top of this, the hungry dragon’s insatiable appetite for food, energy and other raw materials has given cartoonists an emotive image for the surge in global commodity prices. As a result, it is claimed, China is no longer exporting deflation to the rich world, but inflation.



China’s inflation rate did indeed hit almost 9% earlier this year (by July it had fallen to 6.3%). And after declining for several years, the prices of America’s imports from China jumped by 5.3% in the year to July, pushing up the prices of goods in Wal-Mart, where many Americans shop. However, import prices from China are rising more slowly than the cost of goods from elsewhere: the average price of manufactured goods imported into America from industrialised countries rose by 10.1% over the past year (see left-hand chart). Moreover, all of the increase in the price of Chinese imports reflects the fall in the dollar against the yuan, not higher costs in China. In yuan terms, average Chinese export prices are still falling.

There is something to the claim that China’s huge demand for food and energy is pushing up global commodity prices. China has accounted for a big slice of the growth in global consumption of oil and especially metals this decade, helping to drive prices higher. But its effect on global prices over the past year (when rich-world inflation took off) is easily overstated. The pace of growth in China’s oil demand slowed to 4% last year. That is still relatively high, but not nearly as much as its annual rate of 12% in 2001-04, a period when the Fed was fretting about deflation, not inflation. And China’s food production has grown faster than consumption over the past few years. As a small, but growing, net exporter of wheat, maize and rice, China has, if anything, helped to ease world grain prices.

A more nuanced argument, suggested in a recent speech by Donald Kohn, the Federal Reserve’s vice-chairman, is that lax monetary policies have recently caused emerging economies such as China to grow too fast, putting extra demand on resources. Mr Kohn concluded that central banks in emerging economies should tighten policy to restrain economic growth and so reduce global inflation. There are merits to this argument, but there is also a danger that Mr Kohn may be trying to pass the buck. After all, America’s interest rates have been historically low for most of the past decade and thus it must share much of the responsibility for higher global inflation.

Mr Kohn used to argue that globalisation had a muted impact on American inflation. In 2006 he said that emerging economies were mildly disinflationary, because by running current-account surpluses they were adding more to global supply than to demand. China still has a large external surplus, so—using the same logic—how can it now be fuelling world inflation? Other inconsistencies abound. Some economists accuse China of overheating and exporting inflation, at the same time as they criticise it for overinvesting and creating excess capacity, which would imply downward pressure on prices. Last year it was fashionable to argue that China should boost its domestic demand to reduce its excess saving; now it is being told to tighten monetary policy, which would slow the growth in demand.

Cheap at twice the price

Some of this confusion reflects a widespread misunderstanding about how China's integration into the world economy affects prices in the rich world. A common mistake is to assume that falling export prices mean that China is exporting disinflation, whereas rising export prices imply it is exporting inflation. The truth is that the level of Chinese prices matters much more than their rate of increase. China helped to hold down inflation in developed economies not because its prices were falling, but because its goods were much cheaper.

In theory, global trade should cause prices in different countries to converge: the prices of low-cost producers should gradually increase as wages rise (ie, China's falling prices were a temporary anomaly), while the prices of high-cost producers should fall. Thus so long as China's wages and the prices of its goods remain well below those in rich countries (see right-hand chart, above), its increasing penetration of world markets will continue to depress prices for many years. For example, according to BCA Research, a firm of economic analysts, the prices of Chinese exports of electric motors and generators doubled over the past five years, yet because they remain much cheaper than American-produced products, their share of the American market has more than doubled, forcing local producers to cut prices. As China moves up the value chain, it will export cheaper products in new industries, such as cars. This will help to hold down global prices—although possibly by less than in the past.

Perhaps the best way to determine China's impact on world inflation is to gauge whether its net impact is to increase aggregate global demand or supply. China is boosting both, but so far its "positive supply shock" has been the more important. The integration of China and other emerging economies into the world trading system has, in effect, more than doubled the global labour force, and by curbing workers' bargaining power it has restrained pay demands in most developed economies in recent years. Despite higher consumer prices in America and the euro area, wage growth has remained subdued and real wages have fallen, which has prevented inflation from becoming entrenched.

Imagine if China did not trade with the rest of the world. Oil prices would be cheaper, whereas clothes, DVD players and computers would be dearer. China's biggest global impact is on relative prices. The net result, however, is still disinflationary. China is a handy scapegoat, but the real blame for the rise in inflation in the rich world may lie with monetary policy closer to home.

Car engines

The old motor roars back

Aug 14th 2008
From The Economist print edition

Alamy



The internal combustion engine is more than 100 years old, but it still has a future

SMALL cars sometimes struggle to climb steep hills. But a converted Chevrolet Lacetti has something special to help it along. Instead of having to keep changing down and revving harder to ascend a winding Alpine-type test track, the engine can cruise almost to the summit in top gear. This is because the car benefits from one of the developments that in these more economical and greener times promises to give the petrol engine a new lease of life.

Old technologies have a habit of fighting back when new ones come along. This is not surprising because they often have an enormous amount of design, engineering and production knowledge invested in them—especially so in the case of car engines. So new hybrid systems, fuel cells and electric motors will be chasing a moving target. The internal combustion engine will be getting better too.

The Lacetti is just one example. It gets its extra oomph from a supercharger forcing more air into the combustion chambers of its engine. This is an old idea that used to speed up 1920s racing cars, like "blower" Bentleys. But their engines tended not to last very long. With stronger engines, superchargers have been staging a comeback in big cars. The one in the Lacetti is different: it is a dual-speed supercharger that provides its highest boost at low speeds. This gives the car a huge 40% increase in torque, or pulling power.

The car was fitted with the device by its developer, Antonov Automotive Technologies, a British company. The supercharger is purely mechanical and uses planetary gears to change speed. Antonov reckons that it could be used to reduce the size of a car's engine by up to 50%—so it would use less fuel and produce fewer CO2 emissions, but still provide good performance.

Car engines (racing cars aside) have long been a compromise between efficiency, power and durability. Greater flexibility has come with fuel injectors, which can metre fuel more precisely than carburettors, and variable-valve control, which can optimise the opening and closing of inlet and exhaust valves to produce more power when accelerating or greater economy when dawdling around town. The same systems are also used in some big and thirsty V8 and V6 engines to shut down a few cylinders when driving slowly.

Now engineers are taking these developments much further. The e-Valve system developed by Valeo, a French automotive supplier, uses electromagnetic controls to open and shut valves instead of pushrods operated by a camshaft. As each valve can be operated independent of any other, all sorts of tricks

become possible, including shutting down cylinders and switching temporarily from the traditional four-stroke Otto cycle (as developed by Nicolaus Otto, a German engineer in 1876) to a type of Atkinson cycle (an ultra-lean system invented as a rival in 1882 by James Atkinson, a British engineer, but which suffered from a lack of power). The Toyota Prius already uses a form of Atkinson cycle for the petrol engine that operates alongside an electric motor in its hybrid system.

Valeo reckons that on average their e-Valve system can cut fuel consumption and CO2 emissions in a car by up to 20%. It could also be used to make three- and two-cylinder engines that run efficiently and smoothly. These tiny engines could power small cars directly, combine with electric motors in hybrids or work as “get-you-home” engines or range-extending generators in plug-in electric cars.

Two-pot power

Fiat is investing heavily in smaller engines with its new valve-control system, Multiair. This uses hydraulics and electronics to optimise valve settings. When combined with a turbocharger (a supercharger driven by exhaust gases), Fiat engineers talk of producing a “downsized” two-cylinder engine that performs like a bigger four-cylinder one, but with fuel savings of some 20%. Fiat is expected to start using Multiair engines in its cars in a year or so.

Using a combination of variable valve-control, fuel injection and turbocharging, Daimler is developing an entirely new type of engine. It can switch between operating as a petrol engine, with agility and power, to operating as a diesel, with economy and torque. The DiesOtto engine, as Daimler has called it, starts as a petrol engine with spark plugs igniting the mixture of fuel and air in its cylinders, and remains as a petrol engine when high performance is needed. But at low and medium speeds the engine switches into diesel mode, in which the fuel is ignited by compression and heat alone. A 1.8-litre four-cylinder test version of DiesOtto fitted to a prototype Mercedes S-class saloon produced plenty of power, but also returned an average fuel consumption of 5.3 litres per 100km (equivalent in America to 44.4mpg)—extremely good for a such a big car. The vehicle’s emissions were also lower.

In a similar vein, Ricardo, another British automotive-engineering company, has been working with a group of partners on an engine that can switch from four-stroke to two-stroke running. Two-stroke engines can provide very high levels of torque. Ricardo reckons such an engine could not only improve fuel economy by 27% over a traditional engine but also greatly reduce its size and complexity. And because small engines take up less space in a car, that means there will be more room for occupants, inviting more innovative designs.

By putting all these technologies together, small cars capable of breaking the 100mpg barrier will become possible. Getting more than 80mpg from some small diesel-powered cars is already feasible—with a very light foot on the accelerator. Indeed, according to Edmunds.com, an automotive-information service, when you count the overall costs of owning a car, only one hybrid in America, the Honda Civic Hybrid, gets into the top ten of the least expensive vehicles to run, with fuel prices at $5 a gallon. It may be old hat, but the internal combustion engine still has a lot of mileage in it.

Evolutionary psychology

A touch of generosity

Aug 14th 2008
From The Economist print edition

Touch can inspire munificence towards those you trust

PEOPLE touch each other a lot, even strangers. We shake hands, slap backs, kiss and caress. Such behaviour can increase co-operation, which is good from an evolutionary point of view. It has even been shown that waitresses who touch patrons tend to be tipped more generously.

It is known that stroking rats can raise the level of oxytocin, a hormone active in the brain and implicated in various social interactions, such as maternal attachment. In humans higher oxytocin levels have been linked to physiological phenomena like contractions during childbirth, or orgasm. But the link to physical contact is so far unclear. Interestingly, the level of hormone appears to rise in people who are trusted. And more of it seems to inspire greater generosity towards strangers.

This prompted Vera Morhenn of the University of California, San Diego, and her colleagues, to examine the physiological mechanism underlying this and to see whether munificence towards strangers could be manipulated through touch. In their experiment, published in *Evolution and Human Behavior*, they split 96 male and female graduate students into three groups. The first and second received a professional massage but the third did not. Then the first and third group took part in a “trust game”.

Participants were paired at random and seated in front of a computer, physically removed from their anonymous partner. Each also got $10 in cash, supposedly for showing up. The rules stipulated that for each pair, one person, the giver, could cede a part of their money to the other, the trustee. This amount would then be tripled and credited to the trustee, who was subsequently prompted by the computer to sacrifice a part of his stash by returning some to the giver.

Standard game theory predicts that in an anonymous one-off exchange like this the trustee ought to keep the gift and not reciprocate. The giver, too, ought to refrain from donating, since his sacrifice is bound to remain unrequited. Yet that is not what tends to happen with real people. Givers often give and trustees frequently return the favour. (Studies of identical and non-identical twins suggest that co-operative behaviour in trust games is heritable.) In effect, the giver’s donation reflects his confidence in the trustee’s willingness to reciprocate. In other words, it signals trust.

To test the physiology, Dr Morhenn took blood samples at the start and end of each game and looked for changes in oxytocin levels. She found no effect in the massaged group who did not participate in the game, implying that trust does indeed act as some sort of trigger. But in the players the hormone rose in those who were massaged and fell slightly in those who were not.

Despite receiving statistically identical trust signals from givers, the massaged trustees with their higher oxytocin levels returned a whopping 243% more than their unrubbed counterparts. A clue to why evolution might favour such a double-trigger mechanism may come from the other finding that women appear more susceptible than men to tactile manipulation. Perhaps that is to ensure maternal care of their own brood. If so, such effects seem to extend beyond the mother’s bosom.

Economist.com SCIENCE & TECHNOLOGY

Primate intelligence

Out of the mist

Aug 14th 2008
From The Economist print edition

Is Rollie an exception, or are all gorillas as clever?

Lincoln Park Zoo



WHEN it comes to researching intelligence in primates, chimpanzees and orang-utans get all the attention. Chimpanzees have even been shown to outperform humans in memory tests and orang-utans have demonstrated impressive mathematical abilities. Gorillas, by comparison, have been left to one side because, well, let's say they have been seen as the not-so-bright cousins. But that view of gorillas may not be deserved.

The perceptions of gorillas are beginning to change as primatologists get to know more about Rollie (pictured), a ten-year-old female who lives at Lincoln Park Zoo in Chicago. This is a gorilla who is capable of doing a lot more than anyone expected. In a recent study Rollie showed that she is rather good at learning to put discrete items into a list, a skill that is used by people to memorise phone numbers, interpret calendars and, most importantly of all, acquire and process language.

Listing young

Studying list-making skills in humans can be confounded by the fact that people know a lot about lists because they are confronted with them from a very young age. This early introduction is thought to shape their list-making ability, but it makes it impossible to study that ability in its raw, uninfluenced form. As a result, psychologists have embraced a comparative approach and look for the underlying skills in animals that have never before been exposed to lists.

Many species, ranging from pigeons to monkeys, have shown that they can make or learn lists. But Steve Ross, a primatologist at Lincoln Park Zoo, wanted to explore this behaviour further and found that there were no data on sequential learning in gorillas. In fact, he found that there was scarcely any information on gorilla cognition at all.

Surprised by this gap in the literature, Mr Ross decided to test one of Lincoln Park Zoo's gorillas with a simple list-learning task using a 42-inch touch-screen computer that was usually reserved for work with chimpanzees. This is how Rollie came into the picture.

During the study, Rollie voluntarily went into the area equipped with the screen. When she approached it a set of randomly positioned numbers appeared. Her task was to select each numeral in the correct order. If she correctly completed the entire sequence she received a small gift in the form of a sugar-free sweet. If she did not correctly complete the sequence she received no reward.

At the start the tasks were easy; she simply had to select a "1" before a "2" to get the sweet. Now, after some two years and about 25 hours in front of the computer screen, she is working on seven numerals and getting things right 35% of the time. The likelihood of getting such a sequence right by chance is less than 1 in 5,000.

Watch out, monkeys

Mr Ross told the 22nd International Primatological Society Congress held recently in Edinburgh that Rollie

has advanced to longer and more complex list-related tasks faster than many other species that have been studied. For an example, it took her 18 sessions to graduate to five numerals. Many monkeys needed over 50 sessions to get there. Poor old lemurs required over 500 sessions.

However, comparing data from various studies can be unreliable because slightly different methods may be used. So to be certain that Rollie was as talented as she seemed to be, Mr Ross ran a bright chimp called Optimus Prime through the same process and compared the results. He found that Rollie completed her tasks in half the time that Optimus needed.

While it is a remarkable demonstration, a lot more gorillas need to be studied before broad conclusions can be drawn. Mr Ross admits that Rollie could just be an exceptional gorilla—or one that is highly motivated by jelly sweets.



SCIENCE & TECHNOLOGY

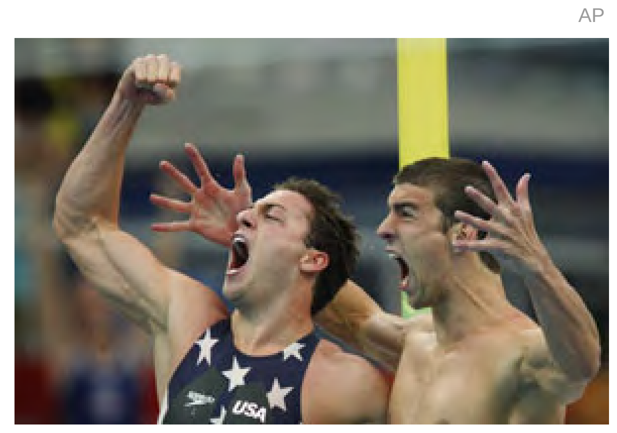
Behaviour

Victory is mine

Aug 14th 2008
From The Economist print edition

Displays of pride and shame are hard-wired

AP



Garret Weber-Gale and Michael Phelps display an evolutionary trait

WHETHER you are a gorilla, a four-year-old child, a politician or an Olympic athlete, the signs of victory are obvious for all to see: the chest inflates, the head is thrown back and the victor displays a strutting and confident air. Shame at being defeated is equally recognisable: the head bows, and sometimes the shoulders slump and the chest narrows too—something that is not a million miles away from the cringing postures associated with submission in animals, from chimpanzees to rats, rabbits and even salamanders. Are these displays of pride and shame common to all humans? If they are, they will have evolved to serve some function.

The past week in Beijing demonstrates that different cultures do indeed show similar displays of pride and shame. But it is difficult to say if these reactions are instinctive or learnt. Jessica Tracy at the University of British Columbia and David Matsumoto at San Francisco State University decided to explore this by comparing pictures of blind and sighted athletes from different cultures.

In their research, published in *Proceedings of the National Academy of Sciences*, the team analysed images from the judo competition held in the 2004 Olympic and Paralympic Games. They looked for whether or not competitors indulged in post-match behaviour such as tilting their heads back, raising their arms or expanding their chests in victory, or hiding their face or narrowing their chests in defeat. They found that in response to success and failure, people from different cultures displayed the stereotypical gestures of pride and some of the components of expressions of shame. This included the blind competitors—even those blind from birth.

Although the researchers say that congenitally blind children might have been taught by their parents to lift their hands above their heads after a victory, they speculate that it would be harder to teach them the full spectrum of displays they witnessed. These findings, then, imply that displays of pride are not simply cultural stereotypes learnt after birth, but an innate form of behaviour that was relevant to the way humans lived. A display of pride (or shame), in other words, may be an evolved and innate behavioural response.

Why? Such displays may have an evolutionary function. People could be advertising their accomplishments and ensuring their status and acceptance within their social group. Similarly, shame shows acceptance of a defeat and a reluctance to fight on (which may help to avoid further aggression), and so might well be a display of submission.

The researchers also found that the behavioural response to shame was weaker in sighted athletes from cultures that were individualistic—or "self-expression valuing"—societies in the West. They suggest that

athletes from these parts were suppressing responses in accordance with “cultural norms” that stigmatise displays of shame. If so, this would explain why the congenitally blind displayed more shame in defeat than did people who became blind later in life.

Culture has a lot to do with displays of victory, whether it is the two-fingered “V” salute or footballers removing their clothing. Both are culturally influenced, but they have their roots in showing exactly who is on top.

Darfur

Lifting the veil

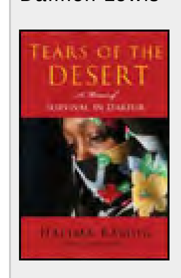
Aug 14th 2008
From The Economist print edition

Damien Lewis



A witness and victim of the conflict in Darfur finds a voice

Tears of the Desert: One Woman's True Story of Surviving the Horrors of Darfur
By Halima Bashir and Damien Lewis



Hodder & Stoughton; 384 pages; £12.99. To be published in America by One World Books in September

Buy it at
Amazon.com
Amazon.co.uk

SINCE Darfur's resistance to the inequities of Arab rule from Khartoum broke into open warfare in the spring of 2003, as many as 300,000 may have died and about 2.8m have been displaced. At the height of what many have called a "genocide", in 2003-04 Darfur was, in the words of a top United Nations official, the "world's worst humanitarian disaster". Epithets like this helped to turn the benighted region of Darfur from an unknown backwater to the most pressing issue on every Western politician's to-solve list. Since then, of course, the sad fact is that there has been no solution, partly because of the impasse at the UN, where the Sudanese government's friends, China and Russia, block attempts to punish it for its sins.

Nevertheless, the conflict's infamy has at least generated a vast number of government and non-governmental reports, books (general and academic), debates, images and journalism, to say nothing of the huge amount of legal documentation marshalled by the International Criminal Court in its indictments for war crimes of the Sudanese president, Omar al-Bashir, and his cronies. Yet almost all the words spoken and written about Darfur have been by foreigners, and in particular white Westerners. Until now, the voices of the Darfuris themselves, apart from the baroque and often tendentious pronouncements of the various rebel groups, have largely gone unheard. "Tears of the Desert" is a welcome attempt to try to fill that gap.

It is only recently, after all, that the personal testimony of victims of the even longer-lasting and more brutal conflict in south Sudan has begun to emerge, with the help of Western writers. That war, against the same regime in Khartoum, ground away, on and off, for the best part of 50 years. It never captured the headlines as Darfur has, yet cost about 2m lives.

Dave Eggers's "What Is the What" (2006) tells the story of a child refugee, one of the "lost boys" of Sudan, who escaped the conflict and ended up in America. And Damien Lewis, before turning to Darfur, helped Mende Nazer to write an account, entitled "Slave" (2002), of her capture by an Arab raiding party from her village in the Nuba mountains and her subsequent long enslavement in a household in

Khartoum. Both “Slave” and “What Is the What” were bestsellers and brought the awfulness of the south Sudanese war home to many people for the first time. “Slave” is being made into a film.

Mr Lewis, a British journalist and film-maker, is now attempting something similar with “Tears of the Desert”. However, it is unlikely to have the same impact as “Slave” did. Its narrator, Halima Bashir (pictured above), grew up in Darfur, became a victim of the conflict and ultimately escaped from it. But her story is not quite so emblematic or compelling. Much of the book describes her relatively happy childhood in north Darfur (despite the horrors of her circumcision, an event also narrated by Ms Nazer in gruesome detail in “Slave”). Ms Bashir’s father was rich by the standards of the region and this helped her, unusually, to go to medical school and graduate as a doctor.

Nonetheless, the moment that changed Ms Bashir’s life, when she was gang-raped over several days by soldiers from the Sudanese army, provides a terrible insight into the conflict. Her description is powerful, harrowing and brave. It forms the key passage of the book. The Sudanese government denies that the army uses rape as a routine weapon of war; it has gone to great lengths to stop any accounts of it coming out of Darfur, gagging aid workers and limiting locals’ access to journalists. Most Sudanese Arabs tend to be in denial about the conflict in general, and especially about the use of rape by their own soldiers. Ms Bashir’s account will help to provide vital testimony—if any locals dare read it.

The book’s description of the texture of village life will also help people to understand the subtleties that usually escape Western headlines about Darfur. The description of playground rivalries between the “African” girls and the “Arab” girls captures the racism and snobbery that underlie the conflict. Such first-hand accounts can do more than any number of speeches and statistics to illuminate a bafflingly complex conflict about which most foreigners would rather forget.

Tears of the Desert: One Woman’s True Story of Surviving the Horrors of Darfur.
By Halima Bashir and Damien Lewis.
Hodder & Stoughton; 384 pages; £12.99. To be published in America by One World Books in September

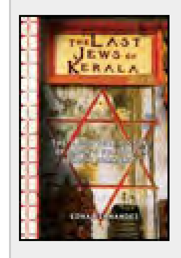
Kerala's Jews

Living far apart

Aug 14th 2008
From The Economist print edition

YAHEH HALLEGUA is the last Jewish woman of child-bearing age in Mattancheri. Her cousins Keith and Len are the last eligible bachelors. But she is not keen on either of them. So within a few decades the extinction of the 400-year-old Jewish community in the port-village in India's southern state of Kerala is assured.

The Last Jews of Kerala: The 2,000 Year History of India's Forgotten Jewish Community
By Edna Fernandes



Skyhorse Publishing; 256 pages; $24.95. Portobello Books; £16.99

Mattancheri is Indian Jewry's most famous settlement. Its pretty streets of pastel-coloured houses, connected by first-floor passages and home to the last 12 sari- and sarong-wearing, white-skinned Indian Jews, are visited by thousands of tourists each year. Its synagogue, built in 1568, with a floor of blue-and-white Chinese tiles, a carpet given by Haile Selassie and the frosty Yaheh selling tickets at the door, stands as an image of religious tolerance. India's Jews have almost never suffered discrimination, except from European colonisers—and each other.

Despite what some of them claim, Mattancheri's Jews are not Kerala's last Jewish community, nor its oldest. In nearby Ernakulam there are about 40 Malabari Jews, of dark, Keralite complexion. Survivors of a community over 1,000 years old, with seven synagogues, now disused, and once extensive landholdings, the Malabaris were the privileged stewards of Kerala's ancient kings. But they were usurped by the white Jews, who arrived from Europe in the 16th century.

Until the mid-20th century, the white Jews, who prospered as bookbinders and traders, enforced a cruel apartheid. Defying top European rabbis, they barred the Malabaris from their synagogue. The first white Jewess to marry a dark Jew, in 1950, was ostracised. Unsurprisingly, the two communities still dislike each other. Yet the whites now depend upon the Malabaris to make a quorum in their synagogue and supply them with kosher meat.

In caste-attuned India, there was always a Jewish pecking order. At the bottom was India's biggest community, the Bene Israel. They arrived in western Maharashtra state many centuries ago, but in the 18th century were "rediscovered" and re-educated in the faith by Keralite and Baghdadi Jews (Arabic-speakers who arrived in India around the same time). Under the British, the Bene Israel were granted privileges and, like their Jewish compatriots, prospered. By 1940 there were some 25,000 Bene Israel, 5,000 Baghdadi Jews and perhaps as many Keralite Jews. Most have since migrated to Israel. Indeed, it was migrants from Kerala who first planted roses in the Negev desert and made it bloom. There are now some 5,000 Bene Israel Jews left in India and perhaps a few dozen Baghdadis.

Edna Fernandes's material is fascinating. Alas, she tends to relate it in cliché-ridden and sometimes annoyingly gushy prose. To say the feuding Keralites resemble "a quarrelling old couple" is criminally unimaginative. And her insinuation that their looming extinction stems from internal rifts, not simply emigration, seems spurious. Yet the story of these Jews is so compelling, and the author's reporting of it so assiduous, that she deserves leniency.

Indeed, she has unearthed gems. These include the tale of a pair of poor Tamils, who regularly cross India to deliver free vegetables to one of Mattancheri's aged Jews. They have their eye on her house. In a futile effort to ingratiate themselves to her, one even gets circumcised. They are known in Mattancheri as "Fools Number One and Two".

And then there is Anil Abraham, a lighthearted young Malabari, who does not want to leave Kerala but fears that he must. He wants "a Jewish wife who will not give me a headache". Yaheh, it seems, does not fit the bill.

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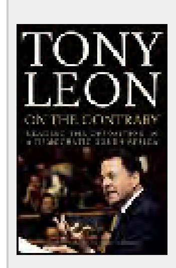
South Africa

The other side of the fence

Aug 14th 2008
From The Economist print edition

Get article background

On the Contrary: Leading the Opposition in a Democratic South Africa
By Tony Leon



Jonathan Ball; 766 pages; 325 rand

TONY LEON, a firm believer that South Africa needs a robust opposition to the overwhelmingly dominant African National Congress (ANC), leaves few people indifferent. Friends and foes respect or despise him for his combative—some would say aggressive—style and abrasive wit. He rose to prominence as the face of the South African opposition just after the death of apartheid. After 13 years at the helm of a party that he saved from the brink of irrelevance and turned into the country's main opposition force, he voluntarily stepped down from the leadership of the Democratic Alliance (DA) in 2007. Mr Leon's political evolution, from opposition to apartheid to opposition to the ANC government, charts the trajectory of the country's young democracy.

The son of middle-class Jewish parents—his father was a judge—he became obsessed with politics at an early age. He started campaigning for the liberal, English-speaking, white opposition to the apartheid regime at the age of 12. "The narcotic of political activism and involvement has remained a lifelong habit," says Mr Leon. The firm belief in individual opportunities, free markets and social justice has never left him, and he has fought tirelessly to advance a cause that has never been widely popular in South Africa. During his university days, left-wing ideology dominated anti-apartheid student politics, and since the advent of democracy liberalism has become a slightly dirty word for the ruling ANC.

Thanks to his political flair and dynamism, he rose fast within the ranks of the Democratic Party, as it was then known, ruffling some famous feathers on the way, including those of Helen Suzman, an anti-apartheid liberal icon. Just before the country's first democratic election, he took the reins of a party squeezed almost out of existence by internal divisions and the weight of the two political giants of the time, Nelson Mandela's ANC and F.W. de Klerk's National Party, which had run South Africa during apartheid. The Democratic Party got less than 2% of the vote.

By the time Mr Leon bowed out, his party was the largest opposition movement. Despite its roots in English-speaking liberalism, the DA had supplanted the National Party as the party of choice for Afrikaners, as the descendants of the country's earliest European settlers are known. But it was a messy process: the two parties briefly joined forces, in what Mr Leon describes as "a marriage made in hell". In the end, in an ironic twist, the leaders of the former party of apartheid joined its nemesis, the ANC, while the rank-and-file stuck with the DA. But the party has failed to attract many black voters, condemning it to permanent opposition.

Largely chronological, Mr Leon's autobiography is also partly thematic. He describes his involvement in, and shares his thoughts on, some of the country's biggest challenges: AIDS, Zimbabwe, the erosion of parliament's oversight role since 1994, and what he sees as the ruling party's attempt to extend its tentacles into independent institutions such as the media and the courts.

He enjoyed a warm relationship with Mr Mandela, whose offer of a cabinet job Mr Leon nonetheless turned down in 1997. Later, when Mr Mandela accused the opposition parties of being "Mickey Mouse organisations", Mr Leon retorted that he ran a "Goofy government". A few weeks later, Mr Leon heard a knock on the door of his hospital room just before he was to undergo open-heart surgery. It was Mr Mandela, who called out, "Hullo, Mickey Mouse, this is Goofy, can I come in?"

This contrasted with the iciness that characterised Mr Leon's relations with Thabo Mbeki, Mr Mandela's successor as president. Mr Leon describes the battle for the leadership of the ANC last year between Mr Mbeki and Jacob Zuma as "the evil of two lessers". Yet even Mr Mbeki has admitted that after believing Mr Leon to be a racist to the core, he came to realise he was a democrat to the bone.

Mr Leon’s autobiography is eloquent, funny and rich, although it delves into his early years for too long, adding 200 unnecessary pages to a tome that already has nearly 800 of them. It is an important record of South Africa’s young democracy, witnessed from the other side of the fence. As Mr Mandela told Mr Leon on his retirement, “You have played such a very important role in our country.”

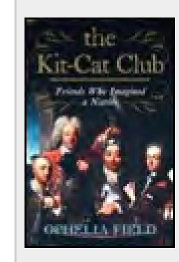
On the Contrary: Leading the Opposition in a Democratic South Africa.
By Tony Leon.
Jonathan Ball; 766 pages; 325 rand

The Kit-Cat Club

Nationhood and mutton pie

Aug 14th 2008
From The Economist print edition

The Kit-Cat Club: Friends Who Imagined a Nation
By Ophelia Field



Harper Press; 524 pages; £25

Buy it at Amazon.co.uk

THEY gathered to eat a "collation of oven trumpery" at the invitation of Jacob Tonson, a publisher and bookseller. The kitchen produced mutton pies, cheesecakes, golden custards, puff-pastry apple tarts and rosewater codling tarts. Between mouthfuls the conversation flickered between politics, poetry, architecture and the regrettable lack of culture among the English. It was all rounded off with a toast to a beautiful woman singled out by a member of the club. Cutlery was coming into use at the time, but using fingers and fingerbowls was fine too. Above all, they drank a lot.

The Kit-Cat Club, named after Christopher Cat, the owner of the inn where they met, flourished for a couple of decades, beginning in the 1690s. At one point it had some 50 members, ranging from politicians and diplomats to writers and architects, along with polymaths such as John Vanbrugh, who dabbled in all those professions. Ophelia Field concentrates on a handful of the best remembered, including the playwright William Congreve and Sir Richard Steele, who founded the *Tatler* and the *Spectator*. Even then, cramming this lot into a single story is tricky, especially since no record of what was said at the Kit-Cat meetings survives. The author turns this to her advantage, allowing the book to meander eruditely, rather like an 18th-century conversation.

Drunkenness and friendship gave the Kit-Cats a feeling of invincibility; so much so that they even tried to introduce the philistine English to opera. Other ventures were more successful. They campaigned for freedom of expression against Tories like Jeremy Collier, whose pamphlet, "A Short View of the Immorality and Prophaneness of the English Stage" was aimed at Vanbrugh and Congreve. The Kit-Cats responded with mockery. They took aim too at the societies for the reformation of manners, which worked to turn drunken philanderers into sober husbands.

As in other culture wars, marriage was a battlefield. In the Kit-Cats' era the nuclear family first emerged as the building-block of society, Ms Field claims, and some of them did not like the look of it at all. Their plays featured trapped, unhappy wives, though Vanbrugh's and Congreve's horror at the notion of sexual fidelity was probably as strong as their sympathy for women. The conflict would continue until the Victorians settled it in favour of godliness and propriety.

Though the Kit-Cats could display a high degree of intellectual snobbery, their club was open to talent. Moreover, through the six issues of the *Spectator* each week, Steele and his collaborator Joseph Addison tried to bring the reading public, which was still just about small enough to be spoken to as a whole, up to somewhere near their level. The anonymous Mr Spectator, Ms Field writes, declared that his aim was to take knowledge from where it was "bound up in books" to where it could "dwell in clubs and assemblies, at tea-tables and coffee houses". In addition to his essays on politics and society, Mr Spectator offered a crash-course on Milton. He eschewed small-mindedness and boorish patriotism, and admired the Jews, whom he described as "pegs in the building of European civilization".

Amid all this cultural output, the Kit-Cats also found time for politics, becoming a centre of the reformist Whig cause and ultimately government. When the British monarchy performed its second bloodless reverse takeover in as many generations, a group of Kit-Cats was sent to fetch the new king, George I, from Hanover. During his reign they feasted on sinecures.

For Ms Field, the club's members were progressives who helped to forge an identity for a new nation created by the Acts of Union that brought England and Scotland together in 1707. Yet they were also throwbacks to an earlier period of aristocratic patrons and politics pursued through poetry. When in power they liked to think of themselves as Roman senators, bound by duty and friendship. When out of it, the model was the Renaissance courts of Italy—only with more pie. Despite all the alcohol, the Kit-

Cats were productive. What Tonson began as a subsidised supper for impecunious writers eventually resulted in some 800 publications.

The Kit-Cat Club: Friends Who Imagined a Nation.
By Ophelia Field.
Harper Press; 524 pages; £25

Poetry slams

Adversity in verse

Aug 14th 2008 | NEW YORK
From The Economist print edition

Teams from across America compete for poetic laurels

“WHAT sound do you make if [John] McCain walks in the building?” asks Mahogany Browne from the stage of the Nuyorican Poets Café. The audience of college students, artists and self-proclaimed hipsters erupts in jeers and shouts, literally shaking the foundations of the dimly lit and crowded venue.

A mix of New York’s young and liberal have assembled to witness a poetry slam, a feature of every Wednesday and Friday night at the Nuyorican. First invented by construction-worker-turned-poet Marc Smith in 1984, a poetry slam pits writers against one another in a test of both writing and performance. Contestants have three minutes to recite a poem of their own composition. They are required to read original work, without the use of props, but beyond that have free rein to do or say whatever they like. Five randomly chosen audience members give each poem a score from one to ten, and the lowest and highest marks are dropped. After three or four rounds, the competitor with the most points is declared the winner. For most slams at the Nuyorican, victory results in a grand prize of $15.

But tonight’s show is different. It serves as a showcase of the three teams being sent from New York to Madison, Wisconsin, to compete in the National Poetry Slam. Ms Browne, the Nuyorican’s Friday-night emcee, is asking about Mr McCain in order to demonstrate the kind of response the audience should have to an unfair scoring of a poem. She makes it clear that she will also defend the judges, saying protectively, “I have a broken toe, but I will whup some ass with the other foot.”

She calls up the first poet from the Nuyorican team, a Falstaffian man called Jamal St John, who begins by announcing in a friendly, childlike voice that his “queens are queen-sized”. He yearns for “the beauty of the black female body…before they asked you to do Pilates.” With the audience on its feet and smiles on every face, he finishes the poem where he started it, exclaiming, “Real women have curves!” After a flurry of clapping, hollering and high scores, Ms Browne retakes the stage and implores “all the big girls to stand up!” They oblige exuberantly.

And yet the slam takes on many other shapes and forms. Jeanann Verlee is a short, serious, generously tattooed Irishwoman, who describes her day job as “an office manager in a corporate environment” and when asked to elaborate, simply giggles. She stands up and waits for the crowd to hush. She reads a sobering piece from the point of view of Charles Chapman, a man who was wrongly accused of rape and subsequently held in prison for years. Speaking on his behalf to his accusers, she coldly points to the floor and utters slowly “There is no resurrection here”.

The piece does not score as highly as Mr St John’s, but does not seem intended as a crowd-pleaser. Nonetheless, Ms Verlee’s team, louderARTS, has an excellent record at the national competition. It has made it to the finals for the past two years—and does so again this year.

This year’s championship, the biggest to date, boasted 76 teams sent from across the United States as well as one from Paris. At its creation only 18 years ago, the competition involved a handful of poets from San Francisco and Chicago. Since then, a documentary entitled “SlamNation”, a Broadway show, a host of television specials and exponentially expanding high-school and college circuits have put slam on the map.

In the end it was SlamCharlotte, a poetry troupe from North Carolina, that took home the national title this year for the second time running. The themes, as usual, were relatively sober: race, rape and domestic abuse all featured in the final. And Ms Verlee’s piece scored 29.2, just short of a perfect 30.

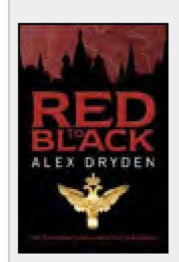
Russia's violent fringes

Another thawed conflict

Aug 14th 2008
From The Economist print edition

Illustration by Daniel Pudles

Red to Black
By by Alex Dryden.



Headline; 416 pages; £17.99

Buy it at
Amazon.co.uk

DEEP in the Kremlin, spymasters are planning a sinister conspiracy to take over Europe, using a Russian enclave in a former Soviet state that is now an independent country as their springboard. “Red to Black” hinges not on South Ossetia, the Russian-backed, breakaway region of Georgia that sparked war in the Caucasus this week, but on Transdniestria, a similar bit of Moldova. But Russia’s invasion of Georgia makes this debut thriller grippingly topical.

Finn, an agent in Moscow for MI6, the British foreign intelligence service, is ordered to spy on Anna, a beautiful colonel in the FSB, its Russian counterpart. Naturally, they soon fall into a mistrustful but heated embrace, even as Finn begins to follow the sinister trail left by Anna’s bosses that leads from the boardrooms of Swiss banks, through the former East Germany to the back streets of Tiraspol, the capital of Transdniestria.

Alex Dryden, a journalist and security expert with long experience of Russia, writes with confidence about both Kremlin machinations and the spies’ shadow world. “Red to Black” is skilfully structured, combining flashbacks of Anna’s life with the unfolding story.

As with many thrillers nowadays, MI6 is portrayed as a rotten employer. Finn’s boss Adrian is self-obsessed, cynical and ruthless, ready to burn Finn whenever it suits. The scenes in London’s clubland, where arrogant spymasters down cocktails with braying City bankers, are especially well drawn. The description of Transdniestria brilliantly captures its dusty claustrophobia, corruption and menace.

But at 400 pages, “Red to Black” is too long; some of Anna’s inner monologues could have been pared. The ending is suitably Russian and tragic, but the conspiracy comes to a disappointingly subdued close. The reader yearns for Anna or Finn to simply call the nearest Reuters bureau, especially as Mr Dryden is a journalist.

Yet the book remains prescient. It depicts a frightening and ruthless Russia, which answers to nobody.

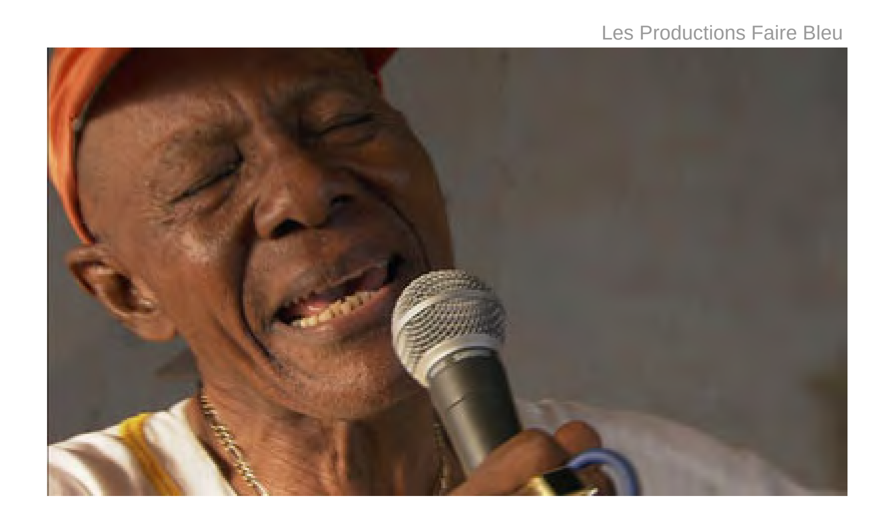
Red to Black.
by Alex Dryden.
Headline; 405 pages; £17.99


PEOPLE
OBITUARY

Papa Wendo

Aug 14th 2008
From The Economist print edition

Les Productions Faire Bleu



Antoine Wendo Kolosoy, a Congolese riverboat mechanic, boxer and rumba singer, died on July 28th, aged 82

WHEN Antoine Kolosoy sang "Marie-Louise" in the native bars of Leopoldville—Le Kongo, Congo-Moderne, Macauley—they said the dead woke up and danced. Some local Belgian priests took fright, and had him arrested. He was soon released, with a warning not to play the song again. But Mr Kolosoy, who was better known as Wendo, or Papa Wendo, and was one of Congo's—and so Africa's—first music stars, ignored this injunction.

Wendo alingi komona mama Louise ("Wendo wants to see Miss Louise") he sang, pleading for a fictional lover, Marie-Louise, whom he had named after a real-life girlfriend of his guitarist, Henri Bowane. Alas, a few weeks after this, the guitarist's sweetheart had sickened and died. "Then he'll show her to Bowane/Where are you, Louise?"

Bowane sang the response: *Wendo, yokoloba pamba* ("Wendo, whatever you say/ We have our car/We have our guitars /We have our voices/We will run away with her to Kingabwa.")

A car indeed! This was 1948, boom-time in the Belgian Congo. Sixty years after it was founded, on a colonial system unrivalled in its savagery, the African giant was thriving on slaughter elsewhere. Wars in Europe had boosted demand for Congo's copper, gold, tin, rubber and cotton. Its cities had swollen with fortune-seeking peasants. A modern African culture was born. Its language was Lingala, the tongue of the Congo river-trade; its religion was Catholic, with spiritualist embellishments. But its music was its own: the Congolese rumba. This was based on the rhythms of Cuban music—rumbas, boleros, mambos—which reached Africa in the 1930s, or rather returned there, having their roots in the songs of west and central African slaves. In their rumbas Congolese musicians slowed the Cuban tempo and added African instruments, drums and the thumb-piano, to the guitar and double-bass.

Papa Wendo was among the best—as perhaps his mother had foreseen. She was a singer of traditional songs, like many women in Mushie, a village in Bandundu province, where he was born in 1925. His father was a hunter. Both parents died when he was young; Catholic priests brought him up. But his mother once returned to him in a dream, telling her small son that even he would master a white man's tool, the guitar.

He would; but other jobs came first. As a teenage boat mechanic, he worked up and down the chocolate-brown Congo river, singing songs to small crowds wherever he docked. Then in the early 1940s he boxed for a living. A rangy middleweight, he fought in Cameroon and Senegal. As a musician, he would go further.

That journey started in Leopoldville, or Kinshasa—as for Congolese musicians, now as then, it always

does. Accompanying himself on a guitar, singing his new rumba songs of everyday African life, Wendo played weddings, funerals and bars. The native quarter, La Cité Indigene, where blacks were corralled after dark, was thrumming. Wendo recalled that “Everyone wanted to dance the rumba.”

He formed a band, Victoria Kin, named after Victoria Brazza, a rival in the French Congo (today’s Republic of Congo-Brazzaville). He made his first radio broadcast in 1945 and cut his first records for a Belgian label, Olympia, in 1947. His good looks, sweet falsetto and trick of yodelling caused a storm, even before his great triumph: a recording of “Marie-Louise” for the first Congolese record label, Ngoma, which was launched in 1948 by a Greek trader who loved rumba. It was he who united Wendo with Bowane, a 20-year-old genius with a band called Victoria Coquilhatville. For a year, Wendo and Bowane composed and recorded many hits together. Then the guitarist moved on, encapsulating Congolese musicians’ habits of imitation and fractiousness, which they have never lost.

By the early 1950s Papa Wendo had been eclipsed by newcomers with faster, fuller sounds: Jhimmy the Hawaiian and then two giants, African Jazz and OK Jazz. But the late 1940s were his. *Tango ya ba Wendo*, the time of Wendo, is how the Congolese remember them.

In the 1960s he sometimes performed, but rarely recorded. When money was short—and with nine children to feed, it often was—he fixed boats on the Congo river. A coup in 1965 by Mobutu Sese Seko, the army chief of Congo—or Zaire, as he renamed it—pushed Wendo further from the music scene. Unlike many stars, he hated to sing praises to the big man in the leopard-skin hat, who would rule ruinously for three decades.

Then, in the last 15 years of his life, Wendo came back. Congolese couples had never stopped dancing to his languorous rumbas. But amid many troubles, including a five-year civil war that claimed millions of lives, many especially yearned for the innocence and hope his songs contained.

He rallied his surviving band-members, recorded three albums and performed in Kinshasa, London and Rabat. He was feted—perhaps a little too much. Other stars, though dead, had been as influential. And his voice, like an old photo fading in the light, had grown weak. But few said so who heard him: in his yard in Kinshasa, tapping time and softly singing “Marie-Louise”, a love-song to a pretty girlfriend of Bowane, which was also a lament.

Overview

Aug 14th 2008
From The Economist print edition

GDP in the **euro area** fell by 0.2% in the second quarter, leaving it 1.5% higher than a year earlier. GDP dropped in each of the currency zone's three largest countries. Germany's GDP fell by 0.5%, though much of that was payback for a remarkably strong first quarter. GDP in France and Italy both fell by 0.3%.

America's trade deficit in goods and services narrowed from $59.2 billion in May to $56.8 billion in June, thanks to a big surge in exports. The value of retail sales fell by 0.1% in July, the first decline for five months. Excluding cars, sales rose by 0.4%.

Japan's GDP fell by 0.6% in the April-June quarter, leaving it 1% higher than a year earlier. Consumer confidence plunged to its lowest level on record.

Consumer-price inflation in **Britain** rose to 4.4% in July. The Bank of England forecasts that inflation is likely to rise above 5% in the coming months. The unemployment rate, based on a survey of households, inched up to 5.4% in the three months to June. The number of people claiming unemployment benefit rose by 20,100 in July, the biggest monthly increase since 1992.

The value of retail sales in **China** rose by 23.3% in the year to July, its biggest increase in at least nine years. Consumer price-inflation fell for a third consecutive month in July, to 6.3%. China's trade surplus rose to $25.3 billion, a 4% increase from a year earlier.



Output, prices and jobs

Aug 14th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+1.8 Q2	+1.9	+1.5	+1.2	+0.3 Jun	+5.0 Jun	+2.7	+4.4	5.7 Jul
Japan	+1.0 Q2	−2.4	+1.4	+1.2	nil Jun	+2.0 Jun	−0.2	+1.6	4.1 Jun
China	+10.1 Q2	na	+9.8	+9.0	+14.7 Jul	+6.3 Jul	+5.6	+6.6	9.5 2007
Britain	+1.6 Q2	+0.8	+1.4	+1.0	−1.6 Jun	+4.4 Jul§	+1.9	+3.6	5.4 Jun††
Canada	+1.7 Q1	−0.3	+1.2	+1.9	−4.6 May	+3.1 Jun	+2.2	+2.3	6.1 Jul
Euro area	+1.5 Q2	−0.8	+1.6	+1.2	−0.5 Jun	+4.0 Jul	+1.8	+3.6	7.3 Jun
Austria	+2.0 Q2	+1.6	+2.3	+1.7	+5.4 May	+3.8 Jul	+2.1	+2.9	4.1 Jun
Belgium	+2.0 Q2	+1.2	+1.6	+1.3	+1.5 May	+5.9 Jul	+1.4	+4.4	11.1 Jul‡‡
France	+1.1 Q2	−1.2	+1.5	+1.2	−1.6 Jun	+3.6 Jul	+1.1	+3.3	7.5 Jun
Germany	+1.7 Q2	−2.0	+2.0	+1.3	+1.6 Jun	+3.3 Jul	+2.1	+3.0	7.8 Jul
Greece	+3.6 Q1	+4.5	+2.8	+2.8	−3.4 Jun	+4.9 Jul	+2.5	+4.6	6.6 May
Italy	nil Q2	−1.1	+0.4	+0.7	−1.8 Jun	+4.1 Jul	+1.6	+3.6	6.5 Q1
Netherlands	+2.8 Q2	−0.2	+2.4	+1.6	+1.2 Jun	+3.2 Jul	+1.5	+2.5	4.0 Jun††
Spain	+1.8 Q2	+0.4	+1.6	+1.0	−9.0 Jun	+5.3 Jul	+2.2	+4.3	10.7 Jun
Czech Republic	+4.5 Q2	+3.6	+4.7	+5.4	+2.2 Jun	+6.9 Jul	+2.3	+6.6	5.3 Jul
Denmark	−0.7 Q1	−2.4	+1.0	+1.0	+0.3 Jun	+4.0 Jul	+1.2	+3.4	1.6 Jun
Hungary	+2.2 Q2	+2.4	+0.9	+4.7	−0.3 Jun	+6.7 Jul	+8.4	+6.5	7.6 Jun††
Norway	+0.9 Q1	+0.8	+2.5	+2.2	+5.9 Jun	+4.3 Jul	+0.4	+3.3	2.5 May***
Poland	+6.1 Q1	na	+5.4	+4.3	+7.2 Jun	+4.8 Jul	+2.3	+4.2	9.4 Jul‡‡
Russia	+8.5 Q1	na	+7.5	+6.8	+0.9 Jun	+16.2 Jun	+8.4	+13.9	6.2 Jun‡‡
Sweden	+0.7 Q2	−0.1	+1.9	+1.7	−1.5 Jun	+4.4 Jul	+1.9	+3.7	8.1 Jun‡‡
Switzerland	+3.1 Q1	+1.3	+2.0	+1.4	+4.4 Q1	+3.1 Jul	+0.7	+2.7	2.6 Jun
Turkey	+6.6 Q1	na	+4.5	+4.3	+0.8 Jun	+12.1 Jul	+6.9	+11.0	10.7 Q1‡‡
Australia	+3.6 Q1	+2.5	+2.8	+2.7	+2.4 Q1	+4.5 Q2	+2.1	+4.0	4.3 Jul
Hong Kong	+6.8 Q1	+7.4	+4.7	+4.4	−4.4 Q1	+6.1 Jun	+1.4	+5.3	3.3 Jun††
India	+8.8 Q1	na	+7.7	+7.1	+5.4 Jun	+7.7 Jun	+5.7	+7.1	7.2 2007
Indonesia	+6.4 Q2	na	+5.9	+5.7	+4.4 May	+11.9 Jul	+5.3	+9.9	8.5 Feb
Malaysia	+7.1 Q1	na	+6.0	+5.8	+2.6 May	+7.7 Jun	+1.4	+5.4	3.6 Q1
Pakistan	+5.8 2008**	na	+3.6	+4.4	+2.7 May	+21.5 Jun	+7.0	+17.6	5.6 2007
Singapore	+1.9 Q2	−6.6	+4.8	+4.9	+2.5 Jun	+7.5 Jun	+1.3	+6.0	2.3 Q2
South Korea	+4.8 Q2	+3.4	+4.4	+4.2	+6.7 Jun	+5.9 Jul	+2.5	+4.2	3.2 Jul
Taiwan	+6.1 Q1	na	+4.3	+4.4	+5.1 Jun	+5.9 Jul	−0.3	+3.4	3.9 Jun
Thailand	+6.0 Q1	+5.9	+4.8	+4.5	+11.2 Jun	+9.2 Jul	+1.7	+8.5	1.5 May
Argentina	+8.4 Q1	+2.4	+6.0	+4.0	+6.1 Jun	+9.1 Jul	+8.6	+9.7	8.4 Q1‡‡
Brazil	+5.8 Q1	+2.9	+4.6	+3.4	+6.6 Jun	+6.4 Jul	+3.7	+6.1	7.8 Jun‡‡
Chile	+3.0 Q1	+5.8	+3.6	+3.8	−0.9 Jun	+9.5 Jul	+3.8	+7.5	8.4 Jun††‡‡
Colombia	+4.1 Q1	−3.7	+4.5	+4.0	−4.3 May	+7.5 Jul	+5.8	+6.7	10.7 May‡‡
Mexico	+2.6 Q1	+2.1	+2.3	+2.5	−1.2 May	+5.4 Jul	+4.1	+4.8	3.6 Jun‡‡
Venezuela	+4.8 Q1	na	+5.2	+3.0	+19.9 Apr	+33.7 Jul	+17.2	+30.6	7.5 Q2‡‡
Egypt	+6.9 Q1	na	+7.1	+6.7	+7.5 2007**	+22.0 Jul	+7.7	+17.1	9.0 Q1‡‡
Israel	+5.2 Q1	+5.4	+3.9	+3.6	+7.2 May	+4.8 Jun	−0.7	+4.2	6.3 Q1
Saudi Arabia	+3.5 2007	na	+7.2	+6.7	na	+10.6 Jun	+3.4	+8.5	na
South Africa	+4.0 Q1	+2.1	+3.9	+4.4	+6.1 Jun	+12.2 Jun	+7.0	+9.6	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−1.4 Q2	+3.6	−0.6	+2.0	−4.7 Jun	+11.1 Jul	+6.4	+10.5	4.1 May
Finland	+3.1 Q1	+2.7	+2.8	+2.4	−3.3 Jun	+4.4 Jul	+2.6	+3.8	6.3 Jun
Iceland	+1.1 Q1	−14.0	nil	+0.8	+0.4 2007	+13.6 Jul	+3.8	+12.0	1.1 Jun‡‡
Ireland	−1.5 Q1	−0.9	−1.3	−0.4	+6.1 Jun	+4.4 Jul	+5.0	+3.6	5.9 Jul
Latvia	+3.3 Q1	na	+2.4	+2.6	−6.4 Jun	+16.6 Jul	+9.5	+15.0	5.6 May
Lithuania	+5.5 Q2	+4.5	+5.5	+4.8	na	+12.2 Jul	+5.1	+11.0	4.7 Jun‡‡
Luxembourg	+2.5 Q1	+5.3	+3.0	+2.6	+0.7 Jun	+4.9 Jul	+1.9	+3.9	4.0 Jun‡‡
New Zealand	+0.9 Q1	−2.3	+0.7	+1.6	+2.4 Q1	+4.0 Q2	+2.0	+4.1	3.9 Q2
Peru	+7.3 May	na	+7.9	+6.6	+4.6 May	+5.8 Jul	+2.2	+5.3	7.4 Jun‡‡
Philippines	+5.1 Q1	+3.0	+4.8	+5.7	+5.2 Apr	+12.2 Jul	+2.6	+8.3	8.0 Q2‡‡
Portugal	+0.9 Q1	−1.0	+1.4	+1.3	−4.2 Jun	+3.4 Jun	+2.4	+2.7	7.6 Q1‡‡
Slovakia	+7.6 Q2	na	+7.5	+5.2	+6.2 Jun	+4.9 Jul	+2.3	+4.2	7.4 Jun‡‡
Slovenia	+5.4 Q1	na	+4.5	+4.0	+1.9 Jun	+6.9 Jul	+3.8	+6.0	6.5 May‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 5.0% in July. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Aug 14th 2008
From The Economist print edition

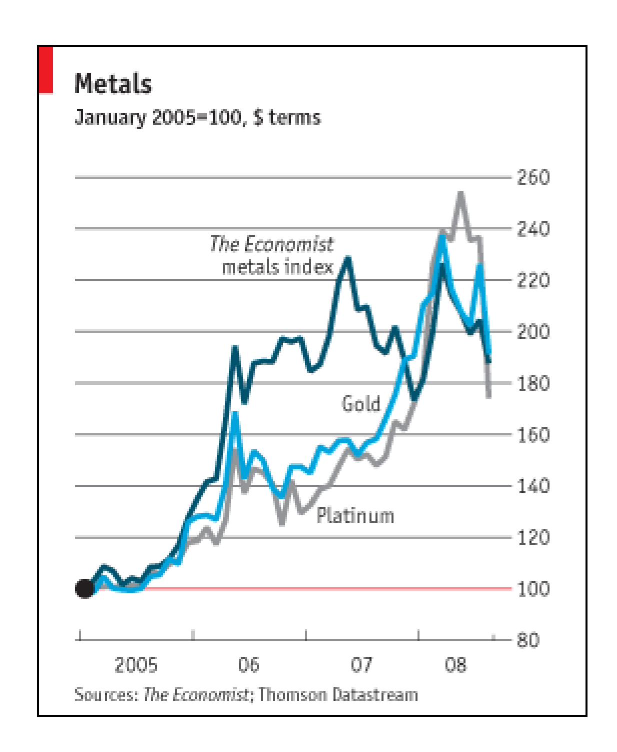
The Economist commodity-price index
2000=100

	Aug 5th	Aug 12th*	% change on one month	% change on one year
Dollar index				
All items	241.2	234.3	-11.6	+15.5
Food	242.6	238.6	-11.0	+35.1
Industrials				
All	239.2	228.7	-12.4	-3.4
Nfa†	195.5	189.5	-7.5	+17.4
Metals	263.2	250.1	-14.3	-9.9
Sterling index				
All items	187.0	186.9	-6.8	+21.5
Euro index				
All items	144.0	145.3	-5.3	+5.2
Gold				
$ per oz	880.40	815.00	-17.3	+21.9
West Texas Intermediate				
$ per barrel	118.73	113.33	-18.2	+56.6

*Provisional †Non-food agriculturals.

Metals

Aug 14th 2008
From The Economist print edition



The boom in metals prices may be petering out. Precious metals fell sharply this week, as lower oil prices and the resurgent dollar lessened the appeal of hedges against inflation. The gold price tumbled by 4.5% in one day, to its lowest level this year. It has dropped by 19% from its peak in March. Platinum prices have fallen by 34% since then. Base-metal prices have also lost ground: our dollar-based index has fallen by 21% since March. The global economic slowdown has dented demand for raw materials. Nickel prices have sunk to their lowest for two years. Copper prices are down too, partly because demand from China, the world's biggest consumer, is flat. But world copper stocks are depleted, so prices may yet perk up again.



Trade, exchange rates, budget balances and interest rates

Aug 14th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Aug 13th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−836.2 Jun	−710.7 Q1	−4.8	–	–	−2.4	2.14	3.93
Japan	+92.4 Jun	+207.3 Jun	+4.1	109	117	−2.8	0.75	1.46
China	+249.2 Jul	+371.8 2007	+8.6	6.86	7.59	0.5	4.32	4.85
Britain	−186.4 Jun	−102.4 Q1	−3.6	0.54	0.50	−3.8	5.76	4.60
Canada	+47.1 Jun	+14.5 Q1	+0.8	1.07	1.08	0.2	2.48	3.61
Euro area	+12.9 May	−14.2 May	−0.3	0.67	0.74	−0.9	4.97	4.20
Austria	+0.3 May	+14.8 Q1	+2.9	0.67	0.74	−0.6	4.97	4.36
Belgium	+11.6 Apr	−1.1 Mar	+1.1	0.67	0.74	−0.7	5.03	4.54
France	−70.2 Jun	−46.2 Jun	−1.5	0.67	0.74	−2.9	4.97	4.37
Germany	+286.2 Jun	+273.6 Jun	+6.4	0.67	0.74	1.1	4.97	4.20
Greece	−64.6 May	−48.7 May	−13.9	0.67	0.74	−2.6	4.97	4.85
Italy	−11.8 May	−63.5 May	−2.7	0.67	0.74	−2.6	4.97	4.80
Netherlands	+60.3 Jun	+50.7 Q1	+5.9	0.67	0.74	0.7	4.97	4.37
Spain	−151.1 May	−163.9 May	−9.4	0.67	0.74	−1.1	4.97	4.54
Czech Republic	+5.5 Jun	−5.0 Jun	−2.7	16.2	20.7	−1.8	3.81	4.42
Denmark	+4.5 Jun	+3.8 Jun	+1.0	5.02	5.52	3.8	5.70	4.48
Hungary	+0.8 Jun	−7.2 Q1	−5.9	160	191	−4.0	8.55	7.80
Norway	+73.9 Jun	+68.8 Q1	+17.3	5.39	5.90	17.7	6.57	4.72
Poland	−19.0 Jun	−22.6 Jun	−4.9	2.22	2.83	−1.9	6.54	6.12
Russia	+174.0 Jun	+109.8 Q2	+6.0	24.3	25.7	3.6	11.00	7.04
Sweden	+18.3 Jun	+40.4 Q1	+7.9	6.30	6.95	2.4	4.26	4.08
Switzerland	+15.5 Jun	+91.4 Q1	+13.9	1.09	1.22	0.9	2.75	2.92
Turkey	−72.1 Jun	−45.8 Jun	−6.4	1.19	1.33	−2.7	18.11	7.00‡
Australia	−18.4 Jun	−61.4 Q1	−5.6	1.15	1.21	1.4	7.31	5.84
Hong Kong	−25.6 Jul	+26.6 Q1	+9.0	7.81	7.82	3.0	2.24	3.17
India	−87.5 Jun	−17.5 Q1	−3.0	42.6	40.8	−3.4	9.21	9.66
Indonesia	+37.5 Jun	+10.9 Q1	+2.8	9,180	9,426	−2.0	9.84	7.25‡
Malaysia	+37.6 Jun	+30.6 Q1	+13.9	3.32	3.49	−3.1	3.70	4.45‡
Pakistan	−21.2 Jul	−10.5 Q1	−8.6	75.3	60.4	−6.4	13.26	12.22‡
Singapore	+28.5 Jun	+32.8 Q2	+19.4	1.40	1.53	1.0	1.19	2.88
South Korea	−1.6 Jul	+2.2 Jun	−2.5	1,039	932	1.5	5.78	5.77
Taiwan	+13.9 Jul	+32.2 Q1	+5.2	31.1	33.0	−1.8	2.75	2.52
Thailand	+7.8 Jun	+12.7 Jun	−0.4	33.6	34.2	−3.0	3.78	4.69
Argentina	+10.8 Jun	+7.9 Q1	+2.9	3.04	3.15	1.7	13.88	na
Brazil	+30.8 Jul	−18.1 Jun	−1.3	1.63	1.99	−1.6	12.91	6.16‡
Chile	+18.2 Jul	+4.3 Q1	+0.5	518	523	8.9	7.08	4.24‡
Colombia	+0.6 May	−5.0 Q1	−2.6	1,857	2,043	−1.0	9.89	5.96‡
Mexico	−7.8 Jun	−4.8 Q1	−0.8	10.2	11.1	−0.1	8.18	8.79
Venezuela	+30.1 Q1	+26.7 Q1	+12.1	3.33	4.23§	1.6	17.05	6.55‡
Egypt	−22.2 Q1	−0.1 Q1	+0.2	5.33	5.66	−7.1	11.34	5.32‡
Israel	−13.2 Jul	+4.4 Q1	+0.2	3.60	4.22	−1.0	3.93	5.29
Saudi Arabia	+150.8 2007	+95.0 2007	+36.9	3.75	3.75	22.3	3.97	na
South Africa	−10.3 Jun	−22.3 Q1	−8.0	7.90	7.34	0.4	12.25	9.25
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.2 May	−3.3 Jun	−10.8	10.5	11.6	−0.4	6.35	na
Finland	+12.2 May	+9.6 May	+4.5	0.67	0.74	4.5	4.90	4.36
Iceland	−1.2 Jul	−3.5 Q1	−14.6	82.4	67.1	2.0	15.97	na
Ireland	+38.4 May	−14.7 Q1	−3.5	0.67	0.74	−3.9	4.97	4.53
Latvia	−6.7 Jul	−6.0 Jun	−15.5	0.47	0.52	nil	5.89	na
Lithuania	−7.9 Jun	−6.0 Jun	−14.0	2.32	2.56	−0.7	5.74	na
Luxembourg	−6.6 May	+4.9 Q1	na	0.67	0.74	0.5	4.97	na
New Zealand	−3.4 Jun	−10.4 Q1	−7.1	1.44	1.39	1.2	7.60	6.19
Peru	+7.8 May	+0.8 Q1	−1.1	2.95	3.14	2.3	6.25	na
Philippines	−8.0 May	+5.6 Mar	+2.8	44.7	46.2	−0.8	4.94	na
Portugal	−24.2 May	−26.7 May	−9.0	0.67	0.74	−2.5	4.97	4.67
Slovakia	−0.9 Jun	−5.0 Apr	−4.7	20.4	25.0	−2.1	3.73	4.75
Slovenia	−3.9 Jun	−2.9 May	−5.8	0.67	0.74	0.1	4.97	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

Aug 14th 2008
From The Economist print edition

Markets

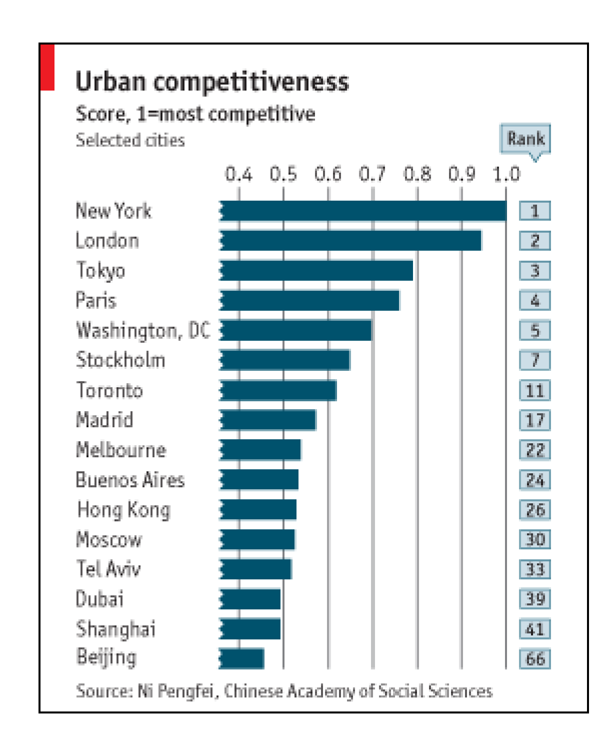
	Index Aug 13th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	11,533.0	−1.1	−13.1	−13.1
United States (S&P 500)	1,285.8	−0.3	−12.4	−12.4
United States (NAScomp)	2,428.6	+2.1	−8.4	−8.4
Japan (Nikkei 225)	13,023.1	−1.7	−14.9	−12.5
Japan (Topix)	1,246.5	−2.4	−15.5	−13.1
China (SSEA)	2,567.7	−10.0	−53.5	−50.5
China (SSEB, $ terms)	162.0	−18.9	−58.4	−55.7
Britain (FTSE 100)	5,448.6	−0.7	−15.6	−20.9
Canada (S&P TSX)	13,377.2	−0.6	−3.3	−10.6
Euro area (FTSE Euro 100)	1,045.2	−1.3	−24.0	−22.7
Euro area (DJ STOXX 50)	3,354.7	−1.6	−23.8	−22.5
Austria (ATX)	3,515.5	−4.1	−22.1	−20.8
Belgium (Bel 20)	3,043.6	−2.6	−26.3	−25.0
France (CAC 40)	4,403.0	−1.0	−21.6	−20.2
Germany (DAX)*	6,422.2	−2.1	−20.4	−19.0
Greece (Athex Comp)	3,287.9	−4.4	−36.5	−35.4
Italy (S&P/MIB)	28,758.0	−0.9	−25.4	−24.1
Netherlands (AEX)	410.3	nil	−20.4	−19.1
Spain (Madrid SE)	1,259.4	−0.7	−23.3	−22.0
Czech Republic (PX)	1,448.3	−0.8	−20.2	−10.2
Denmark (OMXCB)	381.8	−2.2	−14.9	−13.5
Hungary (BUX)	20,260.3	−5.8	−22.8	−16.5
Norway (OSEAX)	462.5	−2.0	−18.9	−18.3
Poland (WIG)	41,049.8	−0.9	−26.2	−18.4
Russia (RTS, $ terms)	1,776.1	−2.1	−23.3	−22.5
Sweden (Aff.Gen)	271.1	−1.2	−20.4	−18.2
Switzerland (SMI)	7,193.5	−0.2	−15.2	−11.8
Turkey (ISE)	41,253.9	−2.0	−25.7	−26.6
Australia (All Ord.)	4,995.9	−0.4	−22.2	−22.2
Hong Kong (Hang Seng)	21,293.3	−3.0	−23.4	−23.5
India (BSE)	15,093.1	+0.1	−25.6	−31.2
Indonesia (JSX)	2,063.5	−5.7	−24.8	−23.1
Malaysia (KLSE)	1,112.5	−1.9	−23.0	−23.3
Pakistan (KSE)	9,902.4	+2.3	−29.6	−42.4
Singapore (STI)	2,811.8	−2.6	−18.9	−16.8
South Korea (KOSPI)	1,562.7	−1.0	−17.6	−25.8
Taiwan (TWI)	7,292.3	+3.8	−14.3	−10.7
Thailand (SET)	701.6	+3.7	−18.2	−18.1
Argentina (MERV)	1,742.9	−6.9	−19.0	−16.0
Brazil (BVSP)	54,573.0	−5.2	−14.6	−6.5
Chile (IGPA)	13,833.7	−2.6	−1.7	−5.5
Colombia (IGBC)	8,926.0	+0.4	−16.5	−9.3
Mexico (IPC)	26,877.1	−1.7	−9.0	−2.6
Venezuela (IBC)	39,158.1	−1.4	+3.3	−33.4
Egypt (Case 30)	7,850.0	−12.0	−25.0	−22.3
Israel (TA-100)	917.5	−1.3	−20.5	−15.0
Saudi Arabia (Tadawul)	8,188.3	−3.1	−25.8	−25.8
South Africa (JSE AS)	27,035.7	+0.3	−6.6	−19.3
Europe (FTSEurofirst 300)	1,179.6	−1.1	−21.7	−20.4
World, dev'd (MSCI)	1,341.7	−2.0	−15.6	−15.6
Emerging markets (MSCI)	973.9	−3.8	−21.8	−21.8
World, all (MSCI)	337.6	−2.2	−16.3	−16.3
World bonds (Citigroup)	754.4	−1.1	+3.3	+3.3
EMBI+ (JPMorgan)	437.6	nil	+0.9	+0.9
Hedge funds (HFRX)	1,259.5	−0.4	−5.3	−5.3
Volatility, US (VIX)	21.6	20.2	22.5	(levels)
CDSs, Eur (iTRAXX)†	95.2	+1.1	+88.0	+91.2
CDSs, N Am (CDX)†	142.6	+2.5	+62.8	+62.8
Carbon trading (EU ETS) €	23.7	+5.9	+6.6	+8.4

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank

Urban competitiveness

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New York is the world's most competitive city, according to the Global Urban Competitiveness Project. The study ranks 500 cities on their ability to attract and use resources to generate wealth. The cities are assessed on nine measures, including income, economic growth, innovation, jobs, prices and the presence of multinational firms. The report found that the gap between the best-performing cities and the worst is widening. Indeed, there is a fairly large gap between the top two cities, New York and London, and Tokyo in third place. Cities in Europe and North America are richest, but China has the fastest-growing ones. Asian cities also score highly in patent registrations and attracting multinational companies.